NATIONAL PLANNING COMMITTEE SERIES

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Animal Husbandry and Dairying, Horticulture and Fisheries

Crops—Planning and Production

Rural and Cottage Industries

Power and Fuel

Chemical Industries

Mining and Metallurgical Industries

Manufacturing Industries

Industries connected with Scientific Instruments and Engineering Industries

Labour

Population

Trade—(Internal and Foreign)

Industrial Finance

Public Finance

Currency, Exchange and Banking

Insurance (Individual and Social)

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National Housing

Public Health

Education—General and Technical

Woman's Role in Planned Economy

NATIONAL PLANNING, PRINCIPLES & ADMINISTRATION

K. T. Shah.

NATIONAL PLANNING COMMITTEE SERIES

(Report of the Sub-Committee)

INDUSTRIAL FINANCE

Chairman

Mr. A. D. SHROFF

Secretary

Shri J. K. MEHTA

Edited by

K. T. SHAH

Honorary General Secretary

NATIONAL PLANNING COMMITTEE

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To

All Those

MEMBERS OF THE NATIONAL PLANNING COMMITTEE

and of

Its Various Sub-Committees

A TRIBUTE OF APPRECIATION

प्रारब्धमुत्तमजना न परित्यजन्ति

PERSONNEL OF THE SUB-COMMITTEE ON INDUSTRIAL FINANCE

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PREFACE

The National Planning Committee, appointed in 1938, began its work early in 1939. After defining the nature of a National Plan, and determining the nature and scope of the work entrusted to them, the Committee issued an elaborate and comprehensive Questionnaire which was subsequently supplemented by specific details. Twenty-nine Sub-Committees, formed into eight groups, were set up with special terms of reference to deal with all parts and aspects of the national life and work in accordance with a predetermined Plan.

After some unavoidable delay in getting replies to the Questionnaire, the Sub-Committees began their work, and submitted Reports,—some of them Final, some Interim,—which were considered at the Plenary Sessions of the Parent Committee in 1940. Towards the end of that year the Chairman, Pandit Jawaharlal Nehru, was arrested and sentenced to a long term of imprisonment, during which the work of the Committee had necessarily to be suspended.

On his release a year later, hope revived for an intensive resumption of the Committee's work. But the outbreak of war with Japan, the threat to India's own safety, and the hectic march of political events, rendered it impossible to devote any attention to such work at that time. It, therefore, inevitably went into cold storage once again; and remained for the duration of the war.

When at last the War seemed nearing its end, Pandit Jawaharlal Nehru with other leaders was released. The moment seemed again opportune to resume the work of

the Planning Committee. Meetings of that Body were held in September and November 1945, when certain more urgent questions, already included in the programme of the National Planning Committee, were given a special precedence. A Priority Committee was appointed to report upon them. Changes and developments occurring during the War had also to be taken into account; and another Committee was appointed to review the general instructions, given six years earlier to the Sub-Committees. Revised instructions were issued to them following the Report of this Sub-Committee; and the Chairmen and Secretaries of the several Sub-Committees were once again requested to revise and bring up to date such of the Reports as had already been submitted—either as final or interim—while those that had not submitted any reports at all were asked to do so at an early date.

As a result, many of the Sub-Committees which had not reported, or had made only an Interim Report, put in their Reports, or finalised them. The Parent Committee has had no chance to review them, and pass resolutions on the same. But the documents are, by themselves, of sufficient value, prepared as they are by experts in each case, to be included in this Series.

The following Table shows the condition of the Sub-Committees' work, and the stage to which the Planning Committee had reached in connection with them.

Serial No.	Name of the Sub-Committee.	Final Report		Interim Report		No Reports
		N.P.C. Resolutions	Not considered by N.P.C.	N. P. C. Resolution	Not considered by the N.P.C.	
Group I.	**Agriculture & other Sources of Primary Production**	Handbook Pp.		Handbook Pp.		
1.	Rural Marketing and Finance	97-99				
2.	River Training and Irrigation Part I	83-85				
	" " " Part II	113-115				
3.	Soil Conservation and Afforestation	115-119				
4.	Land Policy and Agriculture			139-141		
5.	Animal Husbandry and Dairying	87-89				
6.	Crop Planning and Production				do.	do
7.	Horticulture	102-103				
8.	Fisheries					
Group II	**Industries or Secondary Sources of Production**					
1.	Rural and Cottage Industries					
2.	Power and Fuel		do.			
3.	Chemicals					
4.	Mining and Metallurgy			77-79		
5.	Engineering Industries	75-77		130-133		
6.	Manufacturing Industries		do.			
7.	Industries connected with Scientific Instruments		do.			
Group III	**Human Factor**					
1.	Labour	89-92				
2.	Population	85-87				
Group IV	**Exchange and Finance**					
1.	Trade					
2.	Public Finance			130		do.
3.	Currency and Banking			122-126		
4.	Insurance			93-95		
Group V	**Public Utilities**			95-97		
1.	Transport					
2.	Communications	126-129		120-122		
Group VI	**Social Services—Health and Housing**					
1.	National Housing	99-100				
Group VII	**Education**					
1.	General Education			133-139		
2.	Technical Education				do.	
Group VIII	**Woman's Role in Planned Economy**					

To sum up, fourteen Sub-Committees had made final reports, of which ten have been considered, and Resolutions taken upon them, by the National Planning Committee. Twelve more have presented Interim Reports, of which nine have been considered by the Planning Committee, with Resolutions thereon, while three Sub-Committees have not yet presented any report on the reference made to them.

The idea that all this material, gathered together with the help of some of the best brains in India in the several departments of our national life, should be printed and published was before the Committee from the start. But the interruption caused by the war prevented its realisation. It was once again mooted in 1941; but the moment was not deemed ripe then for such action, partly because the leading spirits in almost every one of the Sub-Committees were unable to devote time and labour to bring their Reports up-to-date; and partly also because war-time restrictions or shortages had made scarcer than ever before the statistics and other facts, which particular sub-committees would need, to bring their work up-to-date. The war-time needs of Government had attracted several of them to work on Government Bodies, Panels, or Committees. For all these reasons it was deemed undesirable that material of this character—valuable as it must be—should be put out in an incomplete, inchoate, obsolete form, which may reflect unfavourably upon Indian capacity for such tasks.

The last four years of the War were thus a period of suspended animation for the National Planning Committee. Even after the end of the war, it has not been feasible, for obvious reasons, for the Planning Committee to resume its work and finalise decisions. Continuous sessions of that body are indispensable for considering and taking decisions on the Sub-Committee reports presented since 1940, and putting all the material into shape, ready for publication, not to mention making its own Report; but the political situation in the country made it impossible. Other conditions, however, are somewhat more favourable than in 1938-39, when the Central Government of the country were all but openly hostile to such attempts. Lest, however, the momentary difficulties make for needless further delay, it was thought advisable by the Chairman and the undersigned that no more time should be lost in putting this material before the Public. Following this advice, it is now proposed to bring out a complete Series of the National Planning Committee's Sub-Committee Reports, which will

serve as appendices to the Parent Committee's own Report. The Plan of the proposed enterprise is briefly summarised below.

Every Sub-Committee's Report, which is in a final form and on which the National Planning Committee has itself taken resolutions, will be edited and published, with an Introduction assigning their due importance to the suggestions and recommendations contained in that particular report, its proper place in the over-all National Plan; and following it up, wherever necessary, by a kind of Epilogue, summarising the developments that have taken place during the seven years, during which the work of the Planning Committee had been in suspension.

Those Reports, again, which, though in a final form, have not yet been considered, and no resolutions taken thereon, by the Planning Committee, will also be included in the Series in the form in which they were submitted, with such Introduction and Epilogue to each as may be deemed appropriate. And the same treatment will be applied to Reports which are 'Ad Interim', whether or not the Parent Committee has expressed any opinion on the same. They will be finalised, wherever possible, in the office, with such aid as the Chairman or Secretary of the Sub-Committee may be good enough to render. Sub-Committees finally, which have not submitted any Report at all, —they are very few,—will also find their work similarly dealt with. The essence, in fine, of the scheme is that no avoidable delay will now be suffered to keep the National Planning Committee's work from the public.

Both the Introduction and the Epilogue will be supplied by the undersigned, who would naturally be grateful for such help as he may receive from the personnel of each Sub-Committee concerned. The purpose of these additions is, as already stated, to assign its true place to each such work in the over-all Plan; and to bring up the material in each Report to date, wherever possible.

Not every Sub-Committee's Report is sufficiently large to make, more or less, a volume by itself, of uniform size, for this Series. In such cases two or more Reports will be combined, so as to maintain uniformity of size, get-up, and presentation of the material. The various Reports, it may be added, would not be taken in the order of the classification or grouping originally given by the Planning Commit-

tee; nor even of what may be called the intrinsic importance of each subject.

In view of the varying stages at which the several Reports are, for reasons of convenience, it has been thought advisable to take up for printing first those which are final, and on which the Planning Committee has pronounced some resolutions. Printing arrangements have been made with more than one Press, so that two or three Reports may be taken simultaneously and published as soon as possible so that the entire Series may be completed in the course of the year.

Two other Sub-Committees, not included in the list of Sub-Committees given above, were assigned special tasks of (1) preparing the basic ideas of National Planning; and (2) outlining the administrative machinery deemed appropriate for carrying out the Plan. These were unable to function for reasons already explained. The present writer has, however, in his personal capacity, and entirely on his own responsibility, published the "Principles of Planning" which attempt to outline the fundamental aims and ideals of a National Plan. This remains to be considered by the Planning Committee. Similarly, he has also attempted to sketch an administrative machinery and arrangements necessary to give effect to the Plan, when at last it is formulated, and put into execution. Notwithstanding that these two are outside the Scheme outlined in this Preface, they are mentioned to round up the general picture of the arrangements made for publication of the entire work up-to-date of the National Planning Committee and its several Sub-Committees.

The several volumes of Sub-Committee Reports, when published, will be treated as so many appendices to the Report of the parent body, the National Planning Committee. It is impossible to say when that Committee, as a whole, will be able to hold continuous sessions, review and resolve upon Sub-Committee Reports which have not yet been considered, and lay down their basic ideas and governing principles for an all over Plan, applicable to the country, including all the facts of its life, and all items making up the welfare of its people.

The disturbed conditions all over the country, and the Labour unrest that has followed the end of the War has caused unavoidable delays in printing and publishing the

several volumes in the Series, which, it is hoped, will be excused.

In the end, a word of acknowledgment is necessary to put on record the aid received by the Editor in the preparation and publication of this Series. All those who are associated in the task,—members of the Parent Committee, or as Chairmen, Secretaries or Members of the various Sub-Committees,—have laboured wholly, honorarily, and consistently striven to give the best that lay in them for the service of the country. Almost all Provincial Governments and some States,—the latter twice in some cases,—have made contributions towards the expenses of this office, which have been acknowledged and accounted for in the Handbooks of the Planning Committee, published earlier. Suitable appreciation of these will be expressed when the Parent Committee makes its own Report. At almost the end of its task, the expenditure needed to edit, compile, and otherwise prepare for the Press, the several Reports, has been financed by a Loan by Messrs. Tata Sons Ltd., which, even when repaid, will not diminish the value of the timely aid, nor the sense of gratitude felt by the undersigned.

Bombay, 1st July 1947. K. T. Shah.

Note:—In the Scheme of this Series, originally given, more than one Report was intended to be included in one volume in some cases. The combinations indicated in the circular, of the 20th of June 1947, had had to be modified as the printing of several Reports proceeded.

When about half the volumes were printed, it was found that that scheme would not give a fairly uniform series. The new arrangement is given on the page facing the title page. Some changes have had to be made in that list e.g., the separation of the two Reports on Public Health and National Housing, intended to be in one volume, are now in separate volumes.

Conversely, only the two Reports on Animal Husbandry and Dairying and on Fisheries were intended to be combined. As now decided, the Report on Horticulture is also included in the same Volume.

Again, the original combination of the Report on Mining and Metallurgy with that on Engineering Industries has been modified. The latter now combined with the Report on Industries Connected with Scientific Instruments, which was originally meant to be a separate volume, while the former is to be by itself.

31st January, 1948. K. T. S.

CONTENTS

INTRODUCTION

Terms of Reference.

This Sub-Committee was appointed to deal with:—

(a) financing of industries, large, medium, small or cottage, in the different parts of the country, with special reference to the devices or institutions such as industrial bank and co-operative credit societies;

(b) attracting foreign capital and its regulations;

N.B.—Financing includes both working capital and fixed capital.

An Interim Report had been submitted by this Sub-Committee but no Resolutions could be taken by the Parent Body on that Report before the National Planning Committee had to suspend work.

The financing of Industries, as commonly understood, involves providing fixed and working capital needed for equipment, including machinery tools, plant and implements, buildings, stores and raw materials, and wages of labour, cost of fuel or power supply, etc., which are necessary to set up an industry, and to work it in its initial stages, until the product is marketed, and the proceeds begin to pay for the expenses of production. Some of this finance is in "fixed" or permanent, forms which last for a varying term of years, e.g., buildings, plant and machinery. Others are much less permanent, being consumed, so to say, in the very act of production, like Stores, raw materials, fuel or wages of labour; and as such are called Working or Circulating Capital.

Before considering the place of industrial finance in a nation's aggregate economy, let us examine the nature of Capital and its role in production in general.

I. Nature and Purpose of Capital.

Financing is a form of employing capital, with which all productive operations are carried out. In several other Volumes in this Series, particularly in that relating to Labour, a considerable space has been devoted to discuss the nature of Capital as a factor in producing new wealth. Classical Economists were accustomed to regard Capital to be an active independent agent of production, on a par with Natural Resources which they called by the generic

term, Land, and Human Effort, or Ingenuity, which they called Labour. But this classical trinity of Land, Labour and Capital does not consist really of three coequal factors —they called them Agents—in bringing about new wealth. Later and more searching analysis considers Capital to be no more than the fruit of past Labour, conserved in more useful forms to aid in furthering the process. In other words it is the surplus of production over consumption, crystallised in the shape of useful tools etc. The two real agents, therefore, in the process of wealth-production are: Nature and Man. The former supplies the material or resources with which the latter labours to produce new forms of wealth needed to maintain life and keep on the process of production.

All forms of wealth, it cannot be emphasized too often, are utilities added or infused into the resources provided by nature,—in the shape of virgin land, running waters, mines and forests,—by the labour or ingenuity of Man. There is no absolute creation of any wealth. It is only transformation of one form into another more suitable for consumption. The forces of Nature operating, as for instance in the case of land under agriculture, or human labour working up the resources provided by Nature into finished goods or services needed for maintaining a given standard of living, produce new wealth. In the sense of new wealth, nature cannot be regarded, any more than capital, as producing absolutely new creation of wealth, though either of them may help, or both combine much more effectively, to transform available material into goods, utilities or services to make them more immediately consumable, and so make them yield greater satisfaction for the wants of man.

In this view of the problem, Finance, or Capital, is no more than an item or ingredient in the process of production. It is itself produced by the collaboration of Man and Nature in the past, and available in the present in the form of tools, implements, plant, machinery, buildings, etc. which help to start and further the process of production. It may, of course, be in the form of money, which is the Universal medium of exchange, and standard of value. All capital, or finance, is the result of saving, i.e. fruits of past labour not consumed all at once, and embodied in the instruments or implements designed to help advance the process of production still further. Its role is to aid and strengthen the Labour of Man,—his head or hand,—and

develop the material supplied by Nature more efficaciously for consumption or use. As such, it has an integral place and function in the aggregate economy of a community, which when properly planned may yield the most satisfactory objective results.

II. Definition of Industrial Finance.

In this conception of Capital, the task of defining Industrial Finance would be comparatively easy. The where withal needed for providing all the necessary Buildings and Machinery, Plant and Equipment, Tools and Implements, and other accessories for setting up an industry, as well as the raw materials, stores, labour charges, power dues, etc.,—not to speak of taxes and payment for other services like Transport,—will be part of the Finance required to start and work such industry. It will be the task of the National Planning Authority, if and when established, to make all the necessary arrangements to help form a surplus of production over consumption, to mobilise and conserve it, and to transform and apply it as and when and where needed. It must also make proper adjustment between the Capital required for Industrial Financing proper, of a more or less permanent character, and that required for the working expenses of any or all industries coming under the Plan.

Similar adjustment, allocation or apportionment of the total available capital will likewise have to be made between Industry and Agriculture, Utilities and Services, Commerce and its accessory or incidental activities. It will have to consider the matter at the source, i.e. at the point where Capital is formed in the first instance; and so take steps not only to bring about a surplus of national wealth, but also to encourage, garner and keep readily mobilised for investment the savings of the community, as the head of the armed forces of a country has to do in times of War or threat of War.

III. Peculiar Characteristics of Industrial Finance.

Before considering these various steps, a glance may be cast at some peculiar characteristics of Industrial as distinguished from Commercial, Agricultural, or Services and Utilities financing. "Financing" is a generic term applicable to all forms of capital investment, i.e. in all forms of productive enterprise, such as Agriculture, Mining, Forestry, as well as Commerce and its incidental Ser-

vices. There are, however, some essential differences betwen the finance required for Industry proper, and that needed for other forms of production and incidental services, utilities, etc. which must be carefully noted before considering the steps mentioned above.

(i) Industrial finance by its very nature is a **long-term investment,** at least in that part of it which takes the form of "fixed capital" sunk in buildings, plant, equipment and machinery, which presumably last for a number of years. The products of such industry may yield a surplus over all its operating charges; but that surplus will not equal the amount actually sunk in a single year. In a number of years, this surplus may accumulate to return the whole of the initial investment. In a regime of individualist economy, however, wherein the industrialist seeks a profit for himself, the bulk of this surplus will be appropriated in the shape of commissions, profits, or dividends, which may not be all available for reinvestment the moment they are so distributed. The wear and tear or repair and replacement in the capital, therefore, will have to be separately provided for which generally takes the form of Capital Reserves.

In other forms of production, like Agriculture, the investment is comparatively short-term, either for a given season or at most for a whole year. The initial investment, even in Agriculture, made to reclaim and develop land and make it fit for cultivation, will, of course, not be returned in such a short time. The new land may for a number of years after its first being brought under the plough may continue to operate under the law of Increasing Returns, and so its surplus yield may be proportionately much higher. But almost all land under cultivation in India is old land with its share of initial investment, which, however meagre, must have been long since repaid; and such as still remains to be replaced is, comparatively speaking, very small. The financing, therefore, of Agriculture, as here considered, is more in the shape of working capital, than fixed capital. Normally, the produce will, so to say, replace and renew the Capital initially invested, so that there is very little of long-term locking up.

In the case of Commercial Finance, again, and financing of accessories of Commerce, Banking, Insurance, Transport, Power and other such Utilities, the investment is usually of very limited duration. In Commerce proper, buying and selling of Commodities and the annual turn-

over is much more rapid, and so the locking up of Capital much less than in the case of the industrial or productive enterprise of the kind mentioned above. In no soundly organised system of Commerce is much Capital locked up in stock, or fixtures, though buildings may account for a fair proportion. Incidental Services like Banking, Insurance, or Transport, do not also require any considerable investment of their own capital, though the total working capital of Banks may be considerable. But that is for a wholly different reason viz: that Banks help to finance other productive enterprise through the development of Credit with all its various forms, instruments, etc. These add to the total of Capital at work, even though the actual investment in such adjuncts of national economy may be relatively small.

In a manner of speaking, **Credit creates Capital**; that is, it makes available the means, instruments, implements, etc. necessary for carrying on commercial and even productive operations, though there is no substantial wealth behind such Credit for the time being. Credit, in other words, anticipates future wealth. It is used at a moment when such new wealth is not in existence; but requires for its production investment so that when it actually is produced, it becomes doubly helpful. Cheap and easy Credit, based on sound foundations, thus becomes an indispensable item and an integral feature in the planned economy of a country.

It is difficult in the extreme to give a more concrete idea of this first peculiar characteristic of Industrial Finance, viz: that it is a long term investment. To the question "within what time can a given industry be expected to be **productive**," the answer will be different,—for different enterprises. Under the existing conditions of private enterpirse moved by the desire for profit, the rate of return will be different not only according to each industry, but even according to each establishment in an industry.

The intrinsic economies, advantages, or handicaps, moreover, of a given industry, its technique, and equipment, are not the sole decisive factors in making for the productive success of an Industry, or a concern in an industry, within a given period. To those who enter the industrial field so late as we in India propose to do, and function under a system of competitive economy dominated by the desire for individual profit, the commercial suc-

cess of the investment in a given industry is often purchased at an aggregate cost to the community, in the shape of fiscal protection, labour exploitation and other such invisible, but not unimportant, costs of industrial expansion, which never enter in the calculation of the private industrialist,—and much less of a mere financier operating for personal gain. Even a Government acting under the influence of private profit-seekers would fail to take full account of all such factors. The entire cost of establishing or expanding a given Industry,—and, **a fortiori**, of Industrialisation of a country in general,—can only be correctly gauged and properly provided for, if there is a comprehensive, integrated National Plan, simultaneously put into execution all along the line. Then only could some definite, predetermined standard be laid down as regards the length of the period within which an Industry can be deemed to be a success, and the finance invested therein can be claimed to have redeemed itself.

(ii) Another characteristic of Industrial Finance, in a properly planned national economy, is that it is a productive investment; that is to say it should reproduce itself in the process of its employment, and so renew and replace itself from time to time. Such new production is in course of time likely to be much more than the amount employed to start with. After meeting all the costs of production, it must leave a margin, not only of profit to those engaged in that process of production, but also for building up a reserve to make provision for renewal and replacement of the initial investment. In all properly organised enterprise this last is an indispensable feature. This double margin of surplus, or excess of production over its expenses, will be larger in proportion as the so-called Law of Increasing Returns is at work in the given industry, or in industry at large.

The foregoing is a working definition of Industrial Finance, and an outline of its most salient features, which, however, may not always be realised. Not only is all such finance, under existing conditions, not always productive of a surplus; it is often a failure concealed in a variety of ways. Nor is all such production of material goods only. Modern industry is so closely inter-linked and inter-dependent that the finished product of one may be only the raw material for another. The result is that the inter-linking and inter-dependence of the entire productive or-

so great that no hard and fast line can be drawn at any stage between what is new material goods produced and what is new utility added to the sum total of national wealth already in existence at a given moment. The existing order of individual enterprise motivated by the desire for private profit will make only the largest profit for the entrepreneur,—or rather for the financier, irrespective of whether or not a given industry and investment in it prove a success, commercially considered. Unless the entire field of productive organisation, and therefore every industry, comprised therein is brought under a comprehensive, well integrated, National Plan, there can be no guarantee of any Industrial Finance being productive in the correct sense of the term.

Very often, those in charge of a given Industry, collectively speaking, engage again in operations or enterprises that can scarcely be called truly productive e.g. Research Experiments connected with the industry. In the long run, however, such activities may turn out to be productive in so far as they stimulate economies or provide encouragement to those conducting them. Only a very limited portion of Industrial Finance is, however, engaged in such forms of stimulation or development especially while industry continues to be dominated by the profit motive, which cannot truly appreciate the value of such activities as an aid to production in the long run.

The Capital invested in the services and Utilities, like maintaining and improving Public Health, expanding Public Education, or developing other Services which are calculated to make the standard of living more adequate and satisfactory in the aggregrate, must also be regarded as productive in the long run. In common parlance, however, this part of Capital Investment is scarcely ever considered to be part of Industrial Finance proper. These activities are, accordingly financed by the community collectively, as part of the social development that every modern industrialised State undertakes as a fundamental duty to its people.

(iii) The third peculiarity of Industrial Finance is no less interesting. In the past such financing was almost entirely done by the individuals engaged in any given industry,—a craftsman working in his home with his own labour, tools, and implements or assisted by other members of his family. All that made up his investment or financing of his activities which was intended to bring

him a fair return. As, however, the scale of production or the market for such enterprise expanded, the worker came to be diverted from his own home to work in a place—a factory—owned and provided by another. The tools, implements, raw materials, etc. were also provided for him by the entrepreneur, who employed him and undertook the entire responsibility for organising and working a given industry. He also shouldered the risk of obtaining a return for all this investment as well as personal skill in organising the enterprise. All the claims of all those engaged in the industry were met and satisfied by him from his own or borrowed resources, in the shape of rent, wages, and interest on capital invested in the enterprise. The worker was thus divorced from the tools, technique and place of his work; and therefore was no longer responsible for the quality of his wares.

As the scale of operations went on steadily expanding, and the scope of the enterprise became more and more complicated, entailing larger and larger investment, the process whereby the initial capital provided by a single capitalist owner of the industry could not suffice. He was obliged to have recourse to other investors associated with him. The bulk of the finance needed for a modern large-scale industry is thus borrowed by the original entrepreneur, or obtained in the shape of shares, the holders of which are part-owners of the concern, though they have very little to say in the actual day-to-day working of the enterprise.

The result is that those who actually conduct the industry do not own more than a fraction of the finance needed for working it on a proper scale. Finding the necessary finance for an industrial enterprise thus comes to be a separate specialised function; and the Industrial Financier—not the old-time entrepreneur—becomes a new species of predatory animals who help to finance enterprises for the sake of the cream obtainable therefrom, without knowing or caring to know anything of the actual conduct of any enterprise he helps to finance. For facilitating his operations he evolves institutions like the Stock Exchanges; devises forms of organisation like the Joint Stock Company with limited liability, and levies a toll on the community at large for these Services which constitute the cream of the profit to himself. Industrial Financing through Stock Exchange operations makes it little better than gambling, and the industrial financier a super gam-

bler. The only difference is that he is fully protected by law for perverting it, and honoured by the community for exploiting it. Wherever this peculiarity is realised, the State, on behalf of the community is taking a larger and larger share in providing such finance.

Fuller examination of the forms of industrial investment and the devices and institutions specialised in providing it, must be deferred to a later section of this Introduction. Here we are only concerned with this peculiarity of modern industrial finance, viz. that it is not provided in the bulk by those who work the enterprise.

IV. Estimate of Capital Resources in India

Capital, being taken in the form of past labour conserved, in the shape of plan and equipment, buildings, tools, implements or machines, the next point to consider in the problem of Industrial Finance is how such capital is formed, and to what extent is it available in this country.

No reliable estimate has yet been made of our requirements by way of Industrial Finance proper under a carefully planned National Economy. Nor are any dependable data available to guage our own resources in this behalf. The various estimates that have been put forward in recent years, e.g. that by the so-called Bombay Plan suggesting a total outlay of Rs. 10,000 crores, include the entire finance in all items and sectors of the Plan, whether Industry, Agriculture, Commerce, Services, or Utilities. All these items would, no doubt, require their share of financing. The National Planning Authority will have to find the total capital needed, and distribute it suitably. But the need would not be immediate in all the several sectors of the Plan, to be satisfied all at once and once for all. It is the essence of a Plan that it would be spread over several years, and that during that period the amount required by way of capital investment, would be proportionately divided for each year. Every year during the period of the Plan, only a fraction of the aggregate amount estimated to be needed for carrying out the entire Plan would have to be found and invested. The large figure of the total need not, therefore, frighten or deter us from framing or executing the Plan.

Such investment, moreover, when made, at least in the productive items under the Plan, would be re-producing itself, some more rapidly than others. New capital would, therefore, be forming side by side with the need

for new investment for carrying the Plan a stage further and further every succeeding year. This will pro tanto reduce the need for new or additional capital,—Finance,—required for the purpose. On the other hand, as each stage of the Plan succeeds, more and more directions will be opened up for profitable utilisation of the surplus new wealth,—the capital formed by saving in the community. There will thus be a new need,—increased demand ever-growing,—for capital investment. There is, in fact, and can be no finality in such activity.

No estimate can thus be made of the total capital that may be needed to carry through the productive enterprise under the Plan, particularly for industrial investment, in any given year during, let us say, the first five or ten years of the Plan. But if we assume that out of a figure like Rs. 10,000 crores as estimated by the Bombay Planners, industrial development would require Rs. 2,000 to Rs. 3,000 crores, spread over, say ten years, the annual demand on that score will be not more than Rs. 300 crores. As Industrial investment, moreover, properly made in really productive enterprise is bound to re-produce itself sooner or later; and the new surplus thus arising may well be expected to suffice, at least after the first five years of planned development, to provide for any extension, expansion, or new industries that may be needed thereafter. The Plan comprehensively made, efficiently executed, must in the long run pay for its own cost. The only danger lies in the uncoordinated individual profit seeker working for himself upsetting the nicely adjusted plan, which must accordingly be guarded against as effectively as possible.

As stated elsewhere in this Introduction, the present investment in Industrial Finance of all kinds is about Rs. 500 crores of paid up capital. This is Indian Capital of Companies registered in India. It does not take into account the existing investment of foreign capital in industry in this country. Allowing for the war-time and post-war increase in prices of capital goods; allowing, further, for room for expansion of existing industry to double its present capacity; and allowing finally for establishing and developing all those other industries in the country which have hitherto not been established for a variety of reasons, not connected with the inherent capacity of the country to develop such Industry,—an aggregate of Rs. 2 to 3,000 crores of new finance or capital for long-range investment in all industries included and working under the Plan as

integral parts thereof, will be a reasonable estimate of our likely needs in this sector of the Plan.

As is explained below in some detail, our own resources may be expected to provide every year for this purpose about Rs. 300 crores in round terms, when once the Plan has been put into operation. If the annual budget for Industrial Finance is estimated at Rs. 500 crores,—the utmost that can be absorbed productively, wisely and without waste by new or expanding industry,—included in an integral National Plan, the room for investment of Foreign Capital in our country would not be difficult to determine.

As stated already, Capital is the surplus of production over consumption, or "saving", which is mobilised and converted into forms more directly helpful in carrying on the process of production and adding new wealth. Fundamentally considered, therefore, it is formed by keeping consumption under control, so that there will be an excess of production. In a balanced, sanely organised economy, this surplus will accrue as a matter of course. In fact, it would be no small merit of a well framed Plan to see that the system is so operated as to provide for an automatic excess of production over current needs. In an unplanned, anarchic individualist economy, on the other hand, this would have to be achieved by a mass of regulations and controls which will bring chaos where order should reign undisturbed.

However achieved, this surplus must be kept readily mobilised the moment the excess is determined; and must be converted, or, at least conserved, in a form easily convertible into the required plant, tools, buildings, machines, etc. at the required moment. Anything that helps to intensify the process of production and keep it above a predetermined form of consumption in the way of material goods, services or utilities, will, therefore, be a help in producing new capital, which is to be useful in carrying on the process of production.

An attempt is made in the following paragraphs in this section to estimate the available wealth in this country, particularly that portion of it which would be in excess of the consumption requirements of the country, and so available for investment in productive industry. Indian people are notoriously very poor. The production of surplus over the consumption requirements of the people is, therefore, a phenomenon brought about at the cost of the

standard of living, which is much below the level of subsistence for three-quarters of our people, if not more. The fallacy of the average, it may be added, is no where so insistent and misleading as the estimates of per capita wealth where the system of distribution is so lop-sided and chaotic as here.

Role of Credit in Creating Capital

The formation of such capital may be anticipated by Credit. Recognising the likely success of given enterprises, Credit takes the risk of providing the most easily acceptable form of capital namely cash, to help obtain tools, implements, etc. necessary for keeping up or starting afresh the process or production. Incidental services and utilities may be evolved or devised, which would help to mobilise and make liquid Credit.

Credit may also be regarded as creating new Capital, which, however, will not be allowed, in a wisely ordered Economy, to exceed certain well known proportions, even though such proportions may not be at any moment objectively defined. In other words, though Credit is founded on the available stock or estimate of new production of wealth, represented by Bank Deposits or other such indices, it should not out-run the formation of new wealth, in such a manner and to such an extent as to be in excess of the available total production in a given unit, and so be providing an artificial and excessive stimulus upsetting or dislocating the economic machinery as a whole.

The relation, therefore, between Institutions providing Credit, and the Instruments embodying Credit and transferring wealth, must be carefully controlled and regulated, so that there should be no danger of any disproportion resulting between the volume of Credit in circulation and the amount needed for productive enterprise and its incidental services all over the country. Credit, once invented, is a double edged weapon, which may be as dangerous or beneficial to its authors as to its victims or beneficiaries. The National Plan, properly conceived and carefully co-ordinated in all its parts, will have to take particular care in authorising and regulating the use of Credit, and guarding against its abuse, so long as any sector of the national economy continues to function as private enterprise seeking profit for the proprietor.

In a later section of this Introduction, further consideration is given to the Institutions dealing in Credit, and the forms or instruments of Credit whereby the necessary Finance (or Capital) needed for productive enterprise may be anticipated and provided in advance,—before, so to say, its actual formation or existence. The forms of such Industrial Finance, such as machine goods, building materials, plant and equipment, benefit by the development of credit much more than any other activity forming part of the national economy, except perhaps the operations of Commerce.

The distinction, however, between consumption and production goods need not be over-stressed. As already remarked, in the present very complex and inter-dependent economy, the raw materials or production goods of one particular industry may well be the finished products or consumption goods for another. That which is, so to say, "Capital" for one Industry may well become merely the production of another. In ordering and regulating the amount of financing which is to be devoted to the several branches or items of productive industry, the National Planning Authority will have a very delicate as well as a very difficult task. It would be facilitated and the Plan made proportionately more workable, if there are laid down some objective indices for guiding it in the discharge of this duty.

It is because of the intervention of Credit that it is more than difficult at any given moment to make any reliable estimate of the available Capital or Finance ready for investment in industrial enterprise. Even if we define industrial productivity in a relatively simple form, as consisting in working up the raw materials into finished articles for immediate consumption, leaving out other productive enterprise such as Agriculture or primary production, the total finance needed for such effort, as integral part of a National Plan, would be difficult to gauge. Still more difficult is to estimate the amount of such Capital available for investment at any given moment,—apart from Credit creating such Capital by anticipation. Though the accounts of industrial operations may be kept from year to year, there is, in addition, every year a certain proportion to carry over, which unavoidably prevents a reliable estimate being made at any given time.

Subject to this all important limitation inherent in the very nature of the problem, let us endeavour to make a

rough estimate of the mobilised savings available for capital investments. In this country there is a very woeful lack of any reliable up-to-date statistical authoritative data, on which such estimates can be founded. We have, no doubt, some indications in the shape of the total investment already made in the various organised industries actually in operation. The sub-joined data give the position as it was at the time the National Planning Committee started work. They indicate a total industrial investment of something like 280 crores of paid up capital, while the corresponding figure for authorised capital was Rs. 851.21 crores at the end of 1936-37. This must have been greatly exceeded during the War due to the spurt of production that accompanied it. Some account will be given of this development in the Summary of Developments at the end of this volume. Here let the tale of the data available on 31st March 1937, be continued.

Companies Limited by Shares Incorporated

According to the official Report on Joint Stock Companies for 1937-38,—the last available of its kind,—the total number of Joint Stock Companies, limited by shares, registered in India up to 1937-38 under the laws relating to the registration of companies, was 22,689. Of these, 10,657 companies or 47 per cent of the total were working at the end of the year 1937-38. The rest were either wound up or discontinued, or never commenced business. All the companies registered in India have a rupee capital. The number of companies at work and the capital invested in them stood as follows at the end of each of the last three years:—*

	1935-36*	1936-37*	1937-38*
Companies	10,384	10,951	10,657
Authorised capital (R1,000) ..	7,96,08,02	8,80,82,57	8,51,20,93
Paid-up Capital (R1,000)	2,77,48,89	2,85,76,64	2,79,17,45

Distribution of Concerns and their Capital

The largest number, with the highest figure of paid up capital of Trading and manufacturing Companies accounting for a paid up capital of Rs. 97 crores, or 35% of the total paid up capital, of which Rs. 20,07 lakhs, or 21 per cent, were invested in public service companies; Rs. 9,84 lakhs in clay, stone, cement, lime and other building and con-

structing materials; Rs. 7,57 lakhs in agencies; Rs. 5,15 lakhs in engineering; Rs. 4,81 lakhs in tobacco (cigars etc); Rs. 3,38 lakhs in iron, steel and ship-building; Rs. 3,36 lakhs in chemicals and allied trades; and Rs. 3,27 lakhs in printing, publishing and stationery.

Next come Mills and Presses, mainly of the Textile Industries of Cotton, Jute, Silk and Wool, which accounted for about 25%.

Next came the Planting Industry. In tea, coffee, and other plantations was a total paid-up capital of Rs. 14,36 lakhs or some 5%.

Mining and Quarrying Companies had an aggregate paid-up capital of Rs. 21,48 lakhs or 7½ per cent.

Estate, land and building companies accounted for an aggregate paid-up capital of Rs. 12,08 lakhs; a little over 4%.

Sugar (including jaggery) manufacture was a relatively new industry at that time, strongly protected. It absorbed Rs. 9,79 lakhs of paid-up capital, or 3½ per cent of the total.

All these concerns accounted for over 80% of the total investment. In addition there were Companies limited by guarantee and associations working not for profit, which at the end of 1937-38 numbered 635. These had no paid-up capital.

Further there were Companies incorporated outside India, but working in this country. They had chiefly sterling capital. The total number of such companies working at the end of 1937-38 for which returns could be obtained was 884, and their paid-up capital amounted to £757,372,000, besides debentures to the extent of £127,883,000, making a total of £885,255,000 = Rs. 1180.34 crores. Of the paid up Capital and Debentures of such foreign Companies, £112,033,000 and £19,787,000 respectively, were invested in petroleum mining, £ 101,089,000 and £ 45,168,000 in engineering, £85,499,000 and £ 43,000 in banking, £ 76,073,000 and £4,633,000 in insurance £ 51,570,000 and £9,678,000 in iron, steel and ship-building, £ 48,770,000 and £ 3,599,000 in public service companies, £36,944,000 and £ 15,061,000 in navigation, £ 28,880,000 and £ 2,320,000 in tea planting, £ 23,647,000 and £ 13,314,000 in railways and tramways, £ 10,739,000 and £250,000 in investment and trust, £ 7,402,000 and £ 1,536,000 in docks, harbours, shipping, landing and ware-

housing, £ 4,630,000 and £559,000 in hotels, theatres and entertainments and £ 3,633,000 and £ 8,000 in Jute Mills. The gold fields in Southern India are chiefly worked by companies formed in the United Kingdom, the paid-up sterling capital invested therein being £ 1,527,000.*

It should, however, be borne in mind that in the case of most of the banking and insurance companies and of some of the navigation and other trading companies incorporated outside India, only a portion, of the capital shown above is invested in India, as these companies work also in other countries besides India. Even if we take half of the total paid up capital of these Non-Indian concerns (including, of course, debentures issued by them) as being used in India, the aggregate of capital investment in this country both Indian and Non-Indian, at the end of 1937-38, reached something like Rs. 1,000 crores in round terms. This is without counting capital invested in Agriculture, in proprietory or partnership trading and manufacturing con-

Description.	No. of Companies.	Paid-up Capital
Trading and Manufacturing Companies ..	5,027	1,09,29,76,139
Mills and Presses	716	65,81,73,745
Banking and Loan	2,217	26,14,52,850
Railways and Tramways	42	14,80,75,458
Tea	440	13,30,49,434
Other companies	933	13,01,28,762
Estate, Land & Building	241	12,76,72,935
Other mining and quarrying companies ..	104	12,02,39,137
Sugar	163	11,64,13,521
Coal Mining	202	8,71,89,739
Other Transit & Transport Cos.	437	4,99,71,516
Insurance	632	4,22,85,988
Navigation	48	3,70,29,741
Other Planting Companies	135	1,97,03,280
Flour Mills	31	1,25,76,521
Gold Mining	4	3,14,450
Total ..	11,372	3,03,72,50,216

The total number of Joint Stock Companies working outside India was 884 and 870, and their paid-up capital was £757,371,547 and £745,326,288 for 1937-38 and 1938-39, respectively. Figures for 1939-40 in respect of these Foreign Concenrs have not been shown as the statistics for that year are not yet complete.

* The total number of Joint Stock Companies, working in British India and the States which made such returns, was 11,114 and 11,372 and their paid up capital Rs. 290.39 crores and Rs. 303.67 crores for 1938-39 and 1939-40 respectively.

The sub-joined table shows the distribution of these companies and their paid-up capital for 1939-40.

cerns, or in co-operative societies, which may easily account for another Rs. 1,000 crores at the lowest computation. In comparison with the aggregate wealth production in the country about that date, measured according to the price level then prevailing, this represents not less than half of the total material goods produced in the country.

These figures have been compiled from official sources, though even they are not for the whole country, nor cover the entire field of industrial finance in productive enterprise. A good deal is left out e.g. the Indian States not making such returns, or the concerns owned by single individuals or partnership firms. The entire block of capital invested in agriculture and forestry is left out. On the other hand, there may be some double reckoning, especially in regard to companies registered outside India.

Supplementing or Checking Statistics.

To supplement these figures, and bring them more up-to-date, we have to have recourse to non-official sources like the Investors' Encyclopaedia 1947, the Stock Exchange Year Books, Investors' India Year Book, and the like. These, though more up-to-date, do not give an exhaustive list of all capital invested in Joint Stock Concerns. The official consolidated annual has been discontinued since 1940, but monthly statistics of Joint Stock Companies, the last available issue of which is for March 1944 can be utilised to make the figures more complete, though not exhaustive nor satisfactory. In the official Monthly Statistics are given Tables of new Companies with their authorised, subscribed and paid up capital, of existing Companies going out of action or in process of liquidation etc. which make the ascertainment of the real position more than ever difficult. In non-official authorities on Joint Stock Corporations, the scope is necessarily limited to those items which are quoted or listed for Stock Exchange quotations, or figure in the organised markets for investment. For what they are worth, however, the following figures bringing up to date the investment in different industries, compiled from the sources just named and relating to the latest available balance-sheets, may show the extent of actual investment already in operation in a relatively limited field.

Category of Concerns	No. of Concerns.	Paid-up Capital. (In Rs. 1000)
Banks	91	1,23,00,30
Electrics	67	21,39,29
Coal	61	7,88,45
Plantations (Southern)	139	12,26,17
Miscellaneous	208	77,71,15
Insurance (India) (1946)	93	9,98,60
Jute	63	20,02,29
Cotton	158	31,84,62
Sugar	55	9,20,57
Engineering	65	29,72,88
Railways	24	9,18,19
Total ..	1024	3,52,22,51

This Table relates to 1,024 Companies reporting by the end of 1946-47, which is hardly a tenth of the total number of Companies known to be at work in British India and Indian States which make such returns. They account for a total paid up capital of Rs. 352.22 crores, which is in excess of the known paid up capital of the Companies registered and working in India on the 31st of March 1940. The total investment in Joint Stock Concerns registered in India must thus be well over Rs. 500 crores. The aggregate Reserve Funds of these Companies amount to Rs. 175.33 crores, while their net profit works out to Rs. 60.65 crores. A portion of the profit is distributed in dividends amounting to Rs. 17.45 crores.

Generalising on the basis of these figures, it would seem that a net surplus every year of something like 20% of the paid up capital is formed, out of which one-fourth goes into dividends. The net surplus formed by these concerns may thus be taken at over Rs. 50 crores. If the argument by analogy may be extended, it would seem as though between Rs. 75 and Rs. 100 crores of net surplus is produced by Joint Stock Companies registered and working in India at the present time. This, is, of course, without counting the surplus or savings by proprietory business or partnership concerns.

Needless to repeat that this figure is open to question, because no account is taken therein of the investment in proprietory concerns, or small industries owned or worked by single individuals or families who do not adopt the Joint Stock Corporate form for reasons of their own. There is, moreover, no mention of the greatest branch of pro-

industries of Animal Husabndry, Dairying etc. The capital invested therein is kept out of account as also the investment in forest development and other forms of primary wealth production which are ordinarily not classed as industries.

On the other hand, Commerce, Banking, Shipping and other Transport Services, Insurance and other similar facilities or utilities, which are not strictly productive of new wealth, are included as indispensable adjuncts of modern industry in a civilised community. The proportion, however, which this latter class of enterprise commands in the total capital investment of the country is estimated from the sources named as comparatively small, however large it may appear in bulk by individual examples. The amount, moreover, is actual investment which gives very little indication of the working potentiality of new capital which this country may command, if only a proper, all-round, well co-ordinated National Plan is formed in advance and executed efficiently.

Indices of New Capital Formed or Available

The oustanding indices for such potential wealth or productive Finance may, however, be found in:—

(1) Bank deposits, both on call and for a fixed period.

(2) Reserve balances etc.

(3) Reserve or Depreciation Funds of Joint Stock Companies.

(4) Such other items as Savings as Bank Deposits, Funds of Insurance Companies, Provident and other Funds which are all in the final analysis savings seeking investment.

Judged by these indices, we have at the present time the deposits in:—

(a) The Reserve Bank Rs. 472 crores in round terms on 30-1-48, including Government Deposits of over Rs. 328 crores.

(b) The Scheduled Banks Fixed Deposits Rs. 337.76 crores and Current Deposits Rs. 753.81 crores.

Between them, these total up to 1,563 crores. No doubt, some of these may be overlapping, as the scheduled Bank balances with the Reserve Bank, which are counted as the latter's deposits. The above total may therefore, not represent the amount avail-

able for industrial investment. Some portion of it is already invested in Bills and advances to industrial or business concerns. Another portion may be required for current needs of consumer goods, which must therefore be deducted before the figure may be taken as available for investment.

The figure given above of deposits in the Reserve Bank of India includes only the amount held in India. The Sterling Balances, represented by cash balances (Rs. 371.71 crores on 30/1/48) and Sterling Securities (Rs. 1135.32) crores) total Rs. 1507 crores, which form a readily mobilised resource, if only Britain could meet these, her liabilities. Against this there may be some set off on account of the stores, installations or equipment of the British Government which the Government of India have taken over. Another similar deduction would have to be made for the Sterling liabilities of the Government of India, in respect of Pensions, which may be capitalised at a fairly high figure. Making all reasonable deductions on these accounts, the balance remaining due to India may still amount to Rs. 750 crores or more. The question is attracting the attention of the Cabinets concerned; and may be hoped to be settled at an early date. But the amount available on such settlement for long term Industrial Finance will not be very considerable.

(c) According to the Authority already quoted, the balance of Saving Bank Deposits outstanding in the Postal Savings Banks amounted to Rs. 146.05 crores in July 1947, and the proportion is maintained thereafter. The total of Savings of all kinds,—Cash Certificates (Rs. 37.75 crores), Defence Saving Certificates (Rs. 4.79) National Saving Certificates (Rs. 74.94), Defence Saving Bank Deposits (Rs. 5.82), added to the Saving Bank Deposits of Rs. 146.05 crores amount to something like Rs. 268.75 crores. Even if we consider only a third of this as potentially available for Industrial Financing, it may well add to our available stock of Rs. 150 crores in round terms.

(d) It is difficult to give any estimates in regard to the Reserves of Joint Stock Concerns. The Reserve Funds of the Companies analysed above total Rs. 175.33 crores. For the greater portion these Reserves are already utilised or invested to cover repairs and replacements to existing industry rather than for new Industrial Finance.

(e) On the other hand, no account is taken in the above of the spare cash of the community, so to say, in

the form of deposits in non-scheduled banks or the money kept at home. The capacity of properly organised Credit to create new Capital is also not allowed for.

(f) The liquid wealth, easily available if only the Government in India was strong, far-sighted, and determined enough, buried in mosques and temples, religious foundations and endowments,—not to mention individual charity,—is incalculable, but must be running in hundreds upon hundreds of crores. It is wealth given to these bodies by pious forbears of the present generation of the Indian people, who have, therefore every claim to it. As it stands at present, it is utterly idle or used only to maintain a class of utter parasites in vice and comfort, if not luxury,—all the more inexcusable as it is indulged in in the name of religion. The Sovereign Indian State should commandeer this wealth for more productive purposes, resulting in substantial benefit to the people and their unborn generations upon generations. The religious foundations or institutions need not be wholly deprived, robbed, or expropriated of their belongings. Instead of their hoards lying idle as useless ingots or ornaments of gold and silver and gems innumerable of all sorts, let them have industrial securities backed by the weight and prospects of planned production in India.

The reserves in specie (gold or silver) in the Currency System of the country, or the Issue Department of the Reserve Bank of India, should not be reckoned in this system. It forms a small proportion of solid backing needed for our entire Currency System. It is interesting to note, however, that the total given under this head in its various constituent items, as on 31st March, 1947, makes a respectable figure i.e. Rs. 2,569 crores, being the total money supply of the country including notes in circulation, Bank Deposits and cash reserves and silver coin.

Estimate of available Industrial Finance

After this detailed scrutiny of our available resources for capital investment in productive industry,—and after making every reasonable allowance for the existing demands of a similar kind upon these sources,—the following figures may tentatively be put forth and taken to be the aggregate of industrial finance available within the country from our own resources:—

(a) Bank Deposits available for investment .. .. .. Rs. 500 crores.

(b) Sterling Balances	Rs.	750 crores.
(c) Reserves of existing Industry ..	„	150 „
(d) Unknown reserves in individual hands	„	500 „
(e) Potential mobilisable from Charities and Religious Foundations	„	1,500 „
Total ..	Rs.	3,400 crores.

We may scale down this figure still further to leave a larger margin of cautious reckoning, and take an aggregate of Rs. 2,500 crores as immediately available for financing new or developing existing industries from our own resources.

This figure is likely to be exceeded by the actual, rather than be found in excess as only one-third of the available Deposits in Scheduled and Reserve Banks are taken into account, and only one half of the Sterling Balances included. No account is taken of the Deposits in the Imperial Bank, the Post-Office and other Savings' Banks. The item under (d) likewise is an underestimate; while that under (e) though extremely difficult to estimate would be found to be very much larger if a real and rigid census was taken of all such idle forms of capital wealth in **mortemaim.**

V. Scope For and Conditions of Foreign Capital Investment

This figure may not be found equal to the maximum potential industrial requirements of this country, if she aims, within a measurable distance of time, to attain National Self-sufficiency in all the important industries she is able to develop within her own borders from her own raw materials, labour, technical skill and the like, or expanding existing industries up to the limit that at least the whole of the domestic market is supplied with her own products.

There is no reliable estimate in the post-war period of the total national wealth of this country produced in the shape of consumer goods of all kinds. Estimates by unofficial Economists since the beginning of this century have differed widely. But the most detailed and painstaking of such estimates made by the present writer and others who have followed his method of reckoning up these

produced in India at something like Rs. 2,500 crores converted into money at the price level prevailing for an average of 20 years i.e. 1901-1921. At the present price-level, assuming there is not much greater expansion of the volume of production, that wealth may be taken to amount to somewhere about Rs. 5,000 crores. This is on a capital investment in the industrial sector of some Rs. 1,000 crores in round terms, counting with all the limitations and reservations mentioned above. If the fullest potentiality of the country is to be realised in all forms of production, including Agriculture adequately mechanised, Industries new as well as old, Social Services, Utilities or Amenities common in an industrialised community of today, she would have to double her annual wealth production (i.e. raise it to some Rs. 10,000 crores in value at the present price level) with a capital investment in all branches of the national economy, including industry, of a like amount. Of that, if we take 25 per cent. to be industrial finance proper, we would not be over estimating our needs in the first stage of our Plan; and all that we may easily find from our own existing or developing resources.

It is unnecessary to add that all this finance would not be required all at once, or even in a single year. The programme of planned development in every sector and item of the National Economy, would necessarily have to be spread over a number of years, not less than five, during which several productive items or sectors would be in working order, and so reproduce a surplus which would go progressively increasing and meet the requirements of new finance.

India's national economy however, is not immediately in a position to produce its own necessary surplus from which new investment capital may safely be sought while we are in the first stage of planned advance. On further investigation of the process of production if the most rigid control and regulation are applied to the national economy and the utmost care is taken to mobilise new wealth as it is formed, and the same secured for the purposes of investment, the amount available from that source would be comparatively small, perhaps not exceeding Rs. 500 crores per annum, if even that much. The figure of Government Loans during the war years, and of recoverable war expenditure, that is to say the amounts lent to the Allies, principally to Britain, is hardly an index of the possible surplus, if a steady and real improvement in the

standard of life of the masses is to be assured. It may accordingly be premised that in some form or another attraction of foreign capital may be desirable, particularly in enterprises or utilities where, complete Socialisation not being adopted, it is yet thought not politic to prevent private enterprise.

Foreign Capital—if and where found unavoidable to attract—may be permitted to be invested in India on certain definite conditions so that the planned development of the country may not be at the mercy of the foreign capitalist. The most important of these conditions should be that:—

(1) No foreign capital should be allowed to be invested in any branch of productive enterprise under the National Plan in this country, except at the instance of the Government of the country and in enterprises owned, controlled and managed entirely by Government.

(2) Government attraction of Foreign Capital would be secured, not on any single enterprise or industry, but on the collective credit of the State in India, which must necessarily be strengthened as the Plan takes effect.

(3) Except as provided for in condition (1) above, in no case of any Key, Essential or Mother Industry connected with National Defence, Public Utility, or Social Service; or for exploiting or working any mineral, forest or any other form of natural wealth should Foreign Capital be allowed to be invested in any form. No concessions to work minerals or power sources should be granted to any foreigner; and existing concessions must be terminated at as early a date as possible.

(4) No private enterprise, if any be left when the full National Plan comes into operation, should be permitted to have any part of its capital, whether for fixed equipment or for current working expenses, from foreign sources.

(5) Any indigenous industry, for which capital has been provided by private individuals, or corporations, must be made to surrender any benefits, or special consideration by way of fiscal protection, or financial or other aid, if it has any

part of its capital foreign owned; and if it is engaged in any of the enterprises enumerated in condition (3).

(6) No Foreign Capital should be permitted to be invested, whether in proprietary, partnership or join stock concerns or Local Governing Body, Provincial Government or Statutory Corporation for any industry, enterprise, utility, or service in this country, without the previous sanction of the Central Government.

(7) All such investment must be subject to and work under a License specially issued in that behalf. The conditions of such Licence must, in the first instance, be laid down by the National Planning Authority, and be in close conformity with the letter and spirit of these principles. The Planning Authority must also be competent to revise or add to these conditions from time to time, and to enforce the same by means of such inspection, inquiries, or investigations as it considers proper and necessary.

(8) Foreign Capital, at present invested in any of the essential industries, or for the exploitation of the mineral, forest, or other forms of natural wealth, should be taken over by the State as soon as possible. In the meantime it must be required to obtain a Licence, and conform strictly to the terms and conditions laid down therein regarding periodical reports, publication of accounts, limitation if any on the distribution of profits, formation of Reserves and the like. The duration of the Licence must not exceed the period laid down for a given stage of the Plan to be completed; and may be renewed on such terms as the National Planning Authority deems expedient and adequate every time.

(9) No industrial enterprise, whose capital is provided by foreign financiers, in any form or to any extent, should be allowed to camouflage itself as Indian Enterprise by registering itself in India under Indian laws, or by adding the word "India" after their normal style and title.

(10) No foreign capital invested in existing concerns, whether proprietory, partnership or joint stock,—engaged in any business, service or utility may

be allowed to continue subject to these conditions being applied to it and enforced by the National Planning Authority.

In the National Plan, as conceived in this Series, all aspects, sectors or items of the country's economy will have to be socialised. No scope would therefore, remain for private capital to work in any of the items or sectors of the Plan at least after the first stage of the Plan is completed. It is fashionable nowadays to suggest that any foreign capital which may be permitted to be invested in this country should be in association with Indian capital, so that the majority of shares are held by Indians, the policy of the enterprises determined entirely by India, and the direction, supervision and management held in Indian hands. It is unlikely that any prudent financiers in countries which command a surplus for investment abroad would care to invest money under such conditions, where the scope for profit may not be so great, and where the security of the capital itself may be open to question. If, however, not withstanding these risks, foreign capital is available for investment in any enterprise, service or utility under the Plan, the conditions mentioned above will make it unnecessary to insist in every detail as to the majority of shares, the control or policy, the proportion of the Directorate and Management being in Indian hands.

The presence of Foreign Capital becomes particularly obnoxious in a growing national economy, if at home the social order is dominated by private enterprise and motivated by individual profit. In those circumstances, some amount of State aid, protection or encouragement may have to be given to private industry which may be unfair even as among the indigenous competing demands for such protection. The unfairness of such State Aid would, however, be all the greater if foreign capital is to benefit in any degree by the grant of such aid or protection. We must, therefore, next consider the conditions under which State aid to private industry may be afforded without undue injury to the public economy.*

* A highly interesting and suggestive discussion on this subject took place at the U. N. E. C. A. F. E. at Ootacamund early in June 1948. It was led by the head of the American Deligation, Dr. Henry Grady, apparently pleading for a fair deal to the foreign investor in Asiatic Development. Representatives of Asiatic countries represented at the conference pointed out the chances of indirect domination over their national economy which such investment, permitted unconditionally led to in the interest of the foreign investor.

VI. State Aid to Private Enterprise.

If private enterprise continues under a regime of Planned national economy, the problem of State Aid to private industry would be exceedingly difficult to handle. Not all forms of productive enterprise will be left to private proprietors. In proportion as a really scientific and all-round National Plan comes into operation, the vogue for the obsolete and anarchic regime of private enterprise must be progressively curtailed. The discrimination between those under direct State ownership and management, and those directly under private ownership would be as invidious as it would be unavoidable. The State may also be associated in partnership with such private enterprise forming integral part of the Plan. In that event the State must reserve all its rights of control supervision, audit, inspection, etc., of the enterprise. In the case of enterprises owned by and conducted directly by the State, those questions need not arise at all.

Alternatively, the State may guarantee the private entrepreneur:—

(a) a stated minimum return on the capital and labour invested;

(b) an agreed proportion of initial capital;

(c) or agree to purchase, at pre-determined prices, stated output by way of encouragement;

(d) afford protection and fostering care in other forms, like fiscal duties on competing foreign products, Merchandise Marks Act etc.;

(e) grant direct cash subsidy or pay bounties, or provide indirect aid of a like character;

(f) lay down stringent Licensing Conditions to guard against unfair competition;

(g) provide economic freight rates on the national transport system;

(h) secure expert technical skill specially imported, if necessary, on public account, and loaned as consultants or technicians to such private enterprise;

(i) organise the national service of education and training so as to be directly helpful;

(j) provide free scientific statistical, or other information, making the enterprise a success, at public cost.

(k) provide cheap raw materials by taxing or forbidding exports of such materials indigenously available or arranging for their import on an economic basis.

It must be added that no industry, which receives State Aid in any form, can be suffered to become part of a local or international monopoly,—legal or virtual. It is of the essence of such aid being given, that the enterprise in question requires only a temporary assistance so as to enable it to get over initial difficulties, and face competition after these handicaps have been remedied. Protection or assistance would have been given in vain, if this basic condition is to be neglected.

Similarly, no industry or enterprise, which receives State Aid in any form, can be allowed to ignore the claim of the community, which pays for this protection or assistance, to reduce the price of the commodity, service or utility which has had to be protected in its initial years. It would be wholly unwarrantable travesty of Fiscal Protection or Financial Subsidy, if an industry thus assisted taxes the local consumer of its product for the benefit of a foreign consumer where these wares are exported. The State, while granting protection, must accordingly, lay down not only the period for which such protection is afforded; it must also provide at the same time for a progressive reduction in the price of the protected article within the country.

Finally the claims of Labour engaged in such industry for a living wage and decent conditions of work should also not be overlooked.

All this need not be confined to industry only. The public services, utilities or facilities must be common benefit. But organised industry may benefit more from them than other sections of the community. One or more of these forms of State Aid to Industry should be made available in a manner and degree found adequate and appropriate to achieve the end in view. The industries or enterprises thus aided or protected would find it easier to secure all their required, fixed or working capital.

Exactly what proportion this section of financing the planned economy of the country would be of the total

wealth produced, or produceable in a given term, is difficult to estimate at this stage. Such as it is. however, it would not be an unbearable burden and will support itself, if the condition is universally insisted upon that such enterprise must be productive of a net surplus within a given period. Estimates of the Capital Finance needed for carrying out the Plan, particularly in regard to the non-recurring Capital Expenditure would have to be based on past experience of similar venture, or present conditions. Neither of these, however, is altogether reliable for making such calculations which may differ materially from the actual figures when finally realised. The attempt made in another section of this Introduction to make a rough estimate is only intended to show the magnitude and complications of the problem.

VII. Division of Responsibility for Capital Financing of Planned Development.

In financing industry, as in financing all other sections of the National Plan, it would be necessary to define and allocate the respective responsibility of the Centre and the units making up the Federal Republic of India. The proportion of the total outlay needed to be shouldered by any of these agencies is equally difficult to lay down in advance. Certain general principles, however may be indicated which should govern their respective share for Capital financing, and current expenditure, or working costs for large or small scale industry and other productive enterprise:

(a) For any industry, service, or utility, which is of a national character; or of vital importance to the very life of the people; or which is, so to say, a mother industry on which other industries may be based, e.g. industries concerning National Defence, machinery or chemicals,—the Union Government alone should be responsible. It must help to provide all the necessary capital finance, both permanent and recurring, through appropriate institutions. The initial capital should be provided out of accumualted reserves or borrowed funds, or the surplus of successful public enterprise. These may be kept ready mobilised, so as to be available for utilisation wherever and whenever needed for expanding and improving existing industries, or starting new ones. It must be a distinctive and imperative feature of planned economy to facili-

tate the formation of such reserves, and their utilisation as and when needed.

(b) Industries, enterprises, or activities, which tend to become monopolies, largely because of fiscal protection or other forms of public aid, should likewise be financed, as far as possible, by or with the assistance of a public authority, whether Central, Provincial, State, or Local, or a Statutory Corporation. The division of capital financing obligations as between the Central and Provincial, State or Local Governments should follow the nature of the enterprise. If it is predominantly of a local or regional character, it must be financed and managed by the local or regional authority; while if it is of an All-India nature, it must be owned and operated by some central authority.

Enterprises which are regional in location, but national in importance, e.g. mines or Hydro-electric power works would be governed by a common policy, even if the ownership and conduct of each such enterprise are in private hands.

(c) Agriculture and the industries associated with, or dependent upon it should, on the other hand, be financed by the governments of the Units, or by institutions working under it.

(d) In any case where Government is unable to finance out of its own resources any major industry of National or vital importance; and is, therefore, obliged to have recourse to private capital, such private capital should not be left to do the entire financing, and so command the sole control and management of all such enterprise. Government, or some statutory public authority specially appointed for that purpose, must be associated as partners in each such concern. No financing of any industry which is part of the Plan should be left exclusively to private hands.

Provision must further be made in such partnership agreement for the eventual buying out by Government of the private partner's share on such terms as may have been laid down in each such agreement. The right must be exercised after the prescribed period. During the currency of the Partnership Agreement, Government must retain the controlling voice in all questions of policy or

general management of the enterprise. They must either hold a majority of shares or at least hold proxies for a majority of shares, necessary to take any important decision of policy.

(e) Any industries of relatively second-rate importance, such as the production of luxury goods,—where private enterprise may under the Plan be left to provide all the necessary outlay for initial equipment, plant and machinery as well as for working expenses, adequate arrangement must be made for effective public supervision and control. This is necessary to guard against dissipation of the surplus, as well as excessive consumption of such commodities, services or utilities.

(f) Any enterprise or activity financed by private capital, and requiring for its commercial success fiscal protection or other aid from public funds or authority, should be required to submit periodical reports of its working, including its accounts and balance-sheets. It must accept and carry out any suggestions or directions that may be issued by the appropriate public authority as a result of the scrutiny of such reports, etc. It must agree to fix the maximum profits which can be distributed among proprietors, not exceeding 10 per cent. per annum on paid up capital. Finally, it must agree to give model or standard conditions for their employees.

VIII. Mobilisation of National Savings & Financing the National Plan.

The most important aspect of the problem of Industrial Finance under the Plan now remains to be considered: viz. the ways and means of encouraging the formation of Savings, and, when formed, attracting such Capital made out of our own resources for investment in productive enterprise under the Plan. It is this Capital,—this surplus of production over consumption,—which must provide the bulk of the Current and Capital Finance needed to carry out the entire Plan, including Industry as well as every other item and sector in the national economy. To finance any considerable part of the National Plan by the aid of Foreign Capital, however advantageously attracted, would involve the risk of mortgaging the country's entire economy to the foreign creditor. No far-sighted Government

could afford to run such a risk, assuming them to be essentially honest, and not contemplating repudiation of the debt if the future makes it for any reason undesirable to honour the national bond.

In proportion as the Plan takes effect there cannot but be an increase of production. And though, for years to come, a large slice of this progressive increase in production will have to be devoted to improve the present intolerably low standard of living of the Indian masses, eventually there must be a surplus. The return to the individual's labour, or to the aggregate and co-ordinated effort of the community in a socialised economy, must leave a surplus after meeting all the reasonable wants of the individual upto a predetermined standard of civilised living and of the community for working efficiency.

This must be made available for re-investment the moment it is formed, so as progressively to intensify the productive organisation. In course of time, after the initial leeway has been made up, or handicap removed, each sector and item in the National Plan should aim at financial self-sufficiency. It must build up its own surplus, which must be conserved in a reserve. The contribution of the individual enterprise, industry or sector in making the aggregate of the national surplus available for reinvestment may, or may not, be maintained in a distinct and recognisable form. But the essence of the matter will lie in the regulations with reference to each enterprise, establishment, industry, or sector under the overall Plan, which will make it incumbent on each to provide a prescribed percentage for removal and replacement reserve, for depreciation, and wear and tear. The total of these, added to the total of each individual's contribution in the shape of premia for Social Security Insurance, Provident and Pensions Fund deductions, etc. will make a reasonable figure to meet all the needs of national financing, when the overall National Plan is in full working order.

What is necessary, therefore, to lay down as part of the regulations under the Plan, is the obligation of each worker and of each enterprise, service or utility, to lay by, after meeting the prescribed standard of living, a proportion of the income, or new production. This must be at the disposal of the National Planning Authority and accumulated for reinvestment. The first claim on the new wealth must be that of improving the national standard of living. But circumstances may be easily imagined under which a different order of priorities may have to be ad-

opted for a time; and in that case some sort of a tightening of the belt by the individual may have to be ordained in the interests of national security, or the success of the Plan. In any event, under planned economy, there can be no toleration for waste or dissipation of reproductive resources, whether by the individual or by an enterprise. All regulations made for this purpose will have to be strictly enforced.

The individual contribution would be automatic, if the suggestions made in another volume in this Series regarding contributions for the several social security services, are duly paid. They should be deducted at the source, both from the employer and the workmen. In the case of the worker working on his own e.g. professional men, writers, artists, shopkeepers, etc., this contribution may be exacted by way of direct taxation, which should be corelated, as nearly as practicable, with the ultimate aim of building up a National Reserve of Capital.

In the case of industrial and other productive enterprises, including agriculture, this provision should take the form of Famine Insurance Contribution, Cattle and Crop Insurance, Depreciation Reserve, Renewals Fund, etc. The name does not matter; we are concerned with the essence of such provision. However formed, this Fund should be under the control of the Central Government, even though the legal ownership of its different proportions may be vested in the Governments of the several units making up the Federal Union of India. The Central Government, likewise, should alone be competent, under the Constitution, to raise and provide all Capital or Working Finance needed by every item or sector under the Plan. Here, too, the question of legal ownership is immaterial. The mechanism of controlling and operating the Fund must be under the sole control of the Central authority. Such a policy alone can make the working of the Plan come up to the initial specifications, and at the same time strengthen the national credit, both at home and abroad. Such an arrangement alone can bring about a uniform policy or standard pattern for financing all requirements under the Plan—central, provincial or local. The utility of this Policy in controlling and stabilising the price-mechanism is not the least of the advantages to be expected from its pursuit.

If we take the Capital outlay necessary in the successive years of the Plan, at some 15 per cent. of the total new wealth produced in the country, the aggregate requirement will be of some Rs. 500 to Rs. 1,000 crores. The figure may

vary in the initial years of the Plan in execution. But eventually it will have to be standardised, say at 10 per cent. of the total new wealth produced in the country. For industrial investment proper, the figure would not exceed, as pointed out elsewhere, Rs. 500 crores per annum, in the first years of the Plan. Even if, in the first stage of the Plan, we may find it difficult to avoid foreign capital being invested in Indian industry altogether, for the entire Plan being carried out, whether in the financial or in the personnel aspect we must rely on our own resources, if we would not have the Plan needlessly miscarry.

IX. Institutions and Instruments of Industrial Financing.

To help form the savings of individuals and of the community, for investment; to mobilise and conserve them in a readily available form; and to arrange for their instantaneous transfer to the channel where any proportion of them is directed to be invested from time to time by the appropriate authority, there must be proper Institutions and suitable Instruments for effecting this complicated duty. If and while the present basis of our Social System continues, i.e., if the national economy in India is based on individual initiative motivated by the desire for personal profit, individual enterprise will have to be relied upon to make the financial investments and adjustments as between the several sectors of the Plan, and also as between the several competing establishments in the same industry, service or utility. A freely competitive society seems utterly incompatible with a planned economy. Every attempt at planning involves control, regulation, and supervision of private enterprise to keep each in line with the rest of the Plan, even if not directly initiated or actually conducted by the State. But if complete allround planning as envisaged in this Series, is not accepted, and any considerable sector of the national economy is left unplanned under competitive individualism, some conditions and regulations must be laid down for the sectors working under private enterprise,—as regards their financing, lest the rest of the National Plan be not defeated because of the unbridled individualism.

Amongst the most important of such conditions may be:—

(i) That the industry, enterprise, service or utility, seeking financial aid from the State, forms integral part of the National Plan; and as such would con-

form to all the requirements of the National Planning Authority.

(ii) That the enterprise, service or utility is based on full consideration of all the essential pre-requisites of success, i.e., availability of raw materials labour, —skilled as well unskilled,—transport, power, market, etc.

(iii) That the enterprise is not and will never seek to be a monopoly, or part of an international combine seeking to be a world monopoly.

(iv) That in case it needs any form of State aid, Fiscal Protection or Financial Subsidy, loan of technical experts, guarantee of return of market, or of initial capital, freight concessions, credit facilities, suitably negotiated treaties to secure a due share in the foreign market,—it must promise to abide by all the conditions and requirements of **State Aid to Industry** in private hands e,g., (a) fixed limit of maximum distributable dividend, (b) model labour conditions, (c) training or employment of given personnel, (d) readiness to form and keep reserves readily mobilised for reinvestment as and where directed. These conditions may be imposed on private enterprise even apart from the grant of financial aid. But if such aid is granted, the authority of the State demanding conformity with such conditions would be doubly justified and reinforced.

(v) Compliance with any conditions for the credit facilities provided by the Central National Banking Organisation, e.g., the supply of information required, publication of balance sheets, etc. The forms and purpose of **State Aid to Industry** under private enterprise even when the regime of planned economy is accepted, will be considered in a later section of the Introduction. Here it is necessary to add that the conditions given above are the minimum indispensable for assuring that the private enterprise getting financial assistance, in Capital or Current expenses, from the Central Financial organisation of the country does not abuse the facility for the benefit of the proprietor, and to the prejudice in the slightest degree of the success of the Plan. The Institutions now provid-

ing financial aid to industries may be listed in three main categories:—

(i) Banks—and other Financing Institutions.

Modern banking has been organised in India too closely on the British commercial model to be of any direct help in financing long range investment in industry. They are short term credit corporations, not long-range industrial financiers. The bulk of their working capital is made up of deposits,—mostly demand deposits—which they cannot afford to have locked up indefinitely in industry however productive in the long-run. They therefore prefer short-term investment secured on goods actually made. Even though the rate of interest on such investment is low, the turnover is very considerable; and so the aggregate return is much better than would be the case in the most productive industry. These Banks prefer such business both because of the quickness of turnover and consequent largeness of return, as also of the excellent security on which they are advanced. The safety of their deposit capital is a prime concern and hence their aversion to long-term investment. The normal investment in such cases is scarcely ever above three months; while that in industry may take as many years or more to show any return.

Banks do, indeed make loans and advances, to industrial enterprises. But these are also short term business, usually secured further on the personal credit of the conductors of the enterprise. The amount invested in these loans and advances is scarcely a fraction of the finance needed by full fledged industrialisation, if it comes as part of an allround National Plan.

A radical reorientation is, accordingly, needed in the basis and working of Banks in India, if they are to be useful adjuncts in carrying out a comprehensive National Plan. If existing Banks are not deemed suitable for the purpose; and if it is considered undesirable to compel them by law to alter their traditional line of business, new banks will have to be formed, specifically to make up the hiatus and fill up the lacuna in our economic organisation. The necessary finance needed by new or expanding industry must be provided, not by **ad hoc** individual whims, but as part of a considered national policy and planned programme of development.

Notice will be taken in the Summary of Developments of the recently founded institution of the Industrial

Finance Corporation to carry out the objective just indicated. But even that will not suffice to make up for the present policy among bankers in India to give a wide berth to industrial financing. A much more extensive chain of Industrial Banks is needed if we mean to remove one of the greatest handicaps on Industrial development in India.

(ii) Stock Exchange.

Stock Exchanges, or Share Bazars, are commonly associated in the popular mind with real industrial financing. As they function today in India and taken at their best, these are organised markets for buying and selling existing industrial stocks, shares or debentures. They also deal in securities which absorb no inconsiderable proportion of the total investment in the community wealth.

Viewed at close quarters in no sense of the term can the existing Indian Stock Exchanges and Share Markets be regarded as institutions specialising in providing long-term industrial Finance and short term credit for working expenses. Hardly any element in these institutions,—they would be more correctly described if we call them organisations,—works deliberately and scientifically as Industrial Investor, or provides advice for intending industrial investor. They have few data, and they care for still fewer. Most brokers need an accountant to interpret a balance sheet to them, a lawyer to explain the provision of the Company Law, and an economist or statistician to unravel the mysteries of the price curve. They have a healthy contempt for the entire tribe of scientists,—unless it be magic or astrology; and a supreme self-confidence born of personal contact with Directors or blood relationship with Managing Agents,—if we leave out of account association on the Turf-Club, friendship in gambling den and connections formed with members of Mrs. Warren's Profession. They act on rumour and ignore any careful study of the Balance Sheets, the state of the general market, or of International relations. They bank on Budget secrets leaking out and fatten on war scares carefully spread.

No wonder these Institutions are the favourite haunt of the Speculator, who specialises in cornering. He has no interest nor understanding of Industrial Finance, but he provides the most spectacular, and therefore the most misleading,—example of "success" on the Stock Exchange. It is the most respectable institution offering open facilities for daylight gambling. Corners are common, jobbers

are commoner; and genuine investor is as rare as he is uninformed. We cannot trust to such social sores to find the necessary finance for an expanding industrialisation.

If a sound system of Industrial Financing is to come into being, if our national economy is to be for ever rid of this most dangerous plague spot; if the available surplus for investment is to be instantaneously mobilised and scientifically reinvested, the most urgent task before the Indian Planning Authority is to reorganise fundamentally the structure and working of these honourable assylums for gamblers, parasites and incurable reactionaries,—called the Stock Exchanges or Share Bazars.

(iii) Industrial Finance.

Private financing of industry, though not unknown, is bound to be as inadequate as it must be undependable. Individuals interested in particular industries as family business by special aptitude or by training association, are known in India as in other countries. Generally speaking they found industries and even expand them. But in a regime of planned economy when all such problems are considered on a nation-wide scale, individual enterprise as well as resources cannot be considered sufficient for the purpose now in view.

The system of Managing Agency, developed in India as part of the British Economic Imperialism, rules still the domain of Joint Stock enterprise; and the most considerable segment of our economic growth has been accomplished under the aegis of Joint Stock enterprise. In the beginning of the device, there may have been some justification for the institution of Managing Agents particularly for British industrialist seeking to dispose of his products in the Indian market. But when modern industry came to India, and mass production in mechanised factories for an unknown market became the order of the day, the Managing Agents continued fishing for profits in the home waters, even though the day had ended of his real utility. The claim by interested parties that the Managing Agents help to provide initial Capital to promising industry, and credit for its working expenses, may be true of one or two outstanding entrepreneurs in the modern industrial history of India. But, for the tribe as a whole, it is an unproved allegation or rather an aspersion. Few of this cautious clan are fools enough to lock up any part of their own ungodly gains in industry, floated or managed by them-

selves. They are much too fully aware of their own technical competence (?) and business acumen (??) to take such risks for themselves, their heirs or successors. What they help to do, however, is to exploit their own or their ancestral name, and traditional reputations, to attrap the unwary operator, or preferably the unsophisticated investor to rush in with her pennies whence the canny promoter with his millions would fear to venture, or having ventured to linger for a day longer than absolutely unavoidable. They may have provided the initial expense, e.g. stamp duty on registration, or cost of preparing and publishing the prospectus, etc. and buying the few shares needed for qualifying as signatories to the Memorandum. But the moment the shares show any tendency to balloon, they get out at the top floor; and leave the industry to shift for itself,—financially and otherwise,— except for the minimum investment needed to continue as managing agents. The system is rotten, root and branch, leaf and bark and blossom; and must be abolished at the first opportunity, so that no ground can remain for any preposterous claims being made by its advocates on the score of providing Industrial Finance. Our national economy, planned or otherwise, cannot be trusted to the tender mercies of the gambler by instinct or example. We must have more rational, systematic arrangement for this most important prerequisite of industrialisation.

X. Forms of Industrial Investment.

Under the present social order where private enterprise governed by the profit motive prevails over the entire social economy, Industrial Finance is thought of mainly in the form of investment in Joint Stock Corporations, i.e. their Shares, Stock or Debentures. Investment in other forms i.e. in proprietory or partnership concerns is impossible to estimate; and is, very likely, relatively very small. Similarly, investment in public enterprise like Railways, Municipalities or Port Trusts, though not insignificant; is not always directly productive; nor does it take such easily transferable and attractive forms as the securities of Industrial concerns.

Joint Stock Companies seldom issue Stock now-a-days. Their shares or evidence of proprietory rights are of relatively small value or denomination each, and are divided into several classes, e.g. Ordinary, Preference, Deferred or Promoters' or Founders' Shares. The rights at-

tached to these various classes of shares as to profits, re-payment of capital, and voting affecting matters of policy or the very existence of the corporation, vary according to the Memorandum and Articles of Association of each concern. Speaking broadly, those who seek safety of capital as well as certainty of fixed return, choose Preference Shares, while bulk of those who are interested in floating concerns ab initio take up Deferred or Founders' shares, if any. But the industrial investment is commonly in ordinary shares, which have, generally speaking, all the proprietorial rights and claims during the currency of the Company and full equity on its dissolution for any reason. No doubt, Ordinary Share-holders would have to forego any claim to profits, if the concern is working at a loss or is just making both ends meet, or has profit enough to meet the stipulated interest on Preference shares.

In the case of Preference Shares the Articles may provide for cumulative payment of dividends, so that, if in any year a dividend cannot be paid, the same will have to be carried forward as a continuing liability, and paid later on when profits begin to increase. The unpaid dividend may carry interest if so provided in the Articles. Until all claims on such Preference shares are met, all other classes of shareholders would have to wait for their return, and even forego it altogether in case the concern does not make enough profits all through its existence to satisfy all such demands. Preferential treatment may also be allowed on the repayment of the capital on the Company being amalgamated, re-constructed or voluntarily liquidated at any time.

Deferred Shares, on the other hand, rank, as regards dividend as well as capital re-payment, after Ordinary as well as Preference Shares. But in compensation for differing their claims, they get relatively a much larger proportion of profit and dividend; and may have also a larger equity in the event of winding up, liquidation or the concern, having to be otherwise terminated. These share-holders have in the initial years of the enterprise to wait for their claims becoming due while business and goodwill are being built up. They have likewise to hold their patience while the concern is being liquidated. For this double differment, compensation is allowed them both in dividend and at the time of redistributing the Capital.

Debentures are fixed interest bearing industrial securities which are often transferable to bearer. They are

essentially mortgage on the assets and earnings and good-will of the concern. They offer a sound and reasonable security for capital, as well as for a fixed return for a definite period in the shape of interest. Debentures are redeemable in a sense the shares can never be. They have, however, no proprietorial claim, except in the event of dissolution or foreclosure of the mortgage, when their bonds must be first paid off. They usually carry a lower rate of interest than that expected by way of dividend for Preference or Ordinary Shares; and, as such, they constitute a much smaller burden, so to say, to the concern than the share-holders' claim. Once any expansion Scheme is carried out by the aid of debenture capital, the increased productivity of the enterprise will have a larger and larger margin for the share-holder, with whom, therefore, this form of financing industry is popular.

In addition to these ways of finding fixed capital, the working capital is usually provided by bank credit, advance or over-drafts on current accounts. As these loans etc. are paid off from the receipts or profits of the concern and renewed when required, they constitute a relatively small burden upon the profits. It, therefore, becomes the part of a far-seeing industrial financier to see that as large a proportion of the working capital, at any rate, is provided by such means as possible. Quite a respectable proportion of its fixed, as well as working, finance is provided in many old established industries by deposits received by the proprietor or managing agent who pays a relatively low interest to the depositor and makes his profit from the investment at a much higher rate.

Besides this common form of financing industries the proprietory or partnership organisation finding its own finance from private resources is not unknown. Almost every small or cottage industry is financed even now by the craftsman from his own resources. But they are, necessarily small and limited. It is just because the relatively small industries are unable to command adequate capital facilities that they are unable to offer any effective competition to the larger resources of joint stock concerns. Private capital of individual financiers is also found in more ambitious ventures, but the scope for these is steadily diminishing.

There are other reasons no doubt why small industries cannot compete satisfactorily with large-scale joint stock corporations in industrial productivity. But the avail-

ability of capital on a very limited scale by the proprietor necessarily restricts not only the scale of operations, and possible internal economics but also the credit facilities available to him. Hence both in its initial equipment and in its working, such small proprietorial or partnership enterprise becomes handicapped.

Financing by partnership firms is more easy, economic and profitable. But even there the aggregate resources are comparatively limited according to the combined credit or capacity of all the partners. The device of limited liability applicable to the Joint Stock Corporations is generally absent in partnership organisation. That makes the responsibility of the associated proprietors comparatively greater, and their financial liability increased in proportion. The device is now rapidly going out of favour with the investing or managing classes.

Financing by means of Co-operative Credit Institutions is more commonly practised in Agriculture, and its associated or subsidiary industries. It is relatively unimportant in large-scale manufacturing industry. There is no reason, however, why the device of cooperative enterprises should not be adopted on a much larger scale than it is today in the field of industry. Co-operative Credit in industry may be in its operation different from that in Agriculture. But the principle would remain unaffected. If the entire community is treated as one and the Plan embraces all aspects of the country's economy, both production and distribution, it would not be impossible to recondition and reorganise the cooperative machinery, in a manner so as to meet all the peculiar requirements of Industrial Finance, and yet avoid the disadvantage that private enterprise obviously presents from the standpoint of equity in national economy.

Financing long-range productive enterprise by Government Bonds or Loans is now coming into vogue; and it is likely that, under the regime of a popular Government and planned economy working on the foundation of private enterprise, the device of Government guaranteed finance for particular industries may become much more widely used. The recently established Industrial Finance Corporation of which fuller notice is taken in the Summary of Develpments, is an instance in point. A special Corporation formed definitely for the purpose of financing new or existing industries, offering guarantee for regular payment of dividends or the return of capital in the event

of the concern having to be wound up, may contribute very substantially to the elimination of the handicap in regard to finance or capital for the rapid and intensive industrialisation of the country.

XI. Ways and Means of Forming & Attracting Capital.

The country's own resources are thus adequate for providing the necessary finance. They will have not only to be relied upon; but, for the purpose of carrying out the Plan in all its national aspects, they must be developed to the utmost and made readily available to provide the necessary impetus for the successful operation of the Plan.

In this connection we must remember that the legend has been very commonly drilled into the public mind that Capital is "shy" in India; and that for long term investment we must rely upon Foreign Capital to develop modern industry on a large scale in India. Whether or not there is any foundation for this legend is doubtful; but given the presence of an alien rule, and also the recent past of the country with unsettled conditions, capital even if otherwise venturesome, would not be forthcoming. Particularly would this be so in industry or enterprise, with the technique and mechanical equipment of which the people concerned would not be familiar. Lastly the legal form of the new organisation,—namely Joint-Stock, limited liability company, was also unfamiliar. Indians, therefore, refrained from investment in organisation and enterprises with which they were not familiar.

This state of affairs may have been valid in the beginning of the Centralised British Government i.e. a century ago. For more than half a century after the transfer of the governance of India to the British Crown, Indian Capital was naturally conspicuous by its absence in the new industries springing up within the country. Foreign capital, mainly British, took command of our national economy on the most advantageous terms. Often it was furnished with Government Guarantee, as in the case of the Railways, of a substantial return guaranteed for a generation. This new and alien Capital worked as part of the British political domination, and helped to exploit our resources of men and materials in the service and for the benefit of British Imperialism. Its advantage was doubled in that it secured practically a monopoly of the Indian market.

From the beginning of this century, however, the consciousness of the Indian entrepreneur grew regarding the potentialities of industrial development in this country from her own resources of raw materials, human labour and natural endowment. And though the official policy was not favourable for the development of local industry, Indian Capital began steadily and progressively to come into its own in the new industries. They began to be built up, particularly after World War I, following the recommendations of the Industrial Commission, and change in Fiscal Policy in 1923. Shipping, banking, mining concerns; sugar, steel, cement, matches, paper, potteries as well as textiles and chemicals attracted Indian Capital. The statistics given in an earlier section of this Introduction would suggest that the legend of indigenous Indian Capital being "shy" was, if not wholly unfounded to start with, greatly exaggerated by interested parties for their own reasons.

In spite of this record, however, the availability of new capital is not in proportion to the potential demand for it, specially if under a National Government an active policy of industrialisation is to be pursued. Planned development of the country, it must also be realised, would make this impetus all the more considerable. The place of Finance along with other requirements of intensive and successful industrialisation would have to be carefully considered and co-ordinated in the aggregate Plan, if it is to yield the most satisfactory results.

It is because of this desideratum, that careful consideration will have to be given to the ways and means for improving and developing the capital resources available within the country itself. The best way, of course, is to increase the wealth of the country, and so improve the standard of living among its people. To attain this objective, it is necessary to ensure a surplus of production over consumption,—saving—so that a margin of investable capital may be formed. It would, indeed, be not enough, if attention and effort are concentrated exclusively, as seems to be likely at the present time, on increasing the aggregate Production only; it is equally necessary that Distribution should be rationalised and become more equitable side by side. The actual consumption by the people must, indeed, be much larger than is the case today, simply because the existing standard of living for the vast majority of the people in India is sub-normal. For a very long time, therefore, the increase in production is likely

to be swallowed up by expanding consumption induced by better distribution of wealth among the people. Steps may, however, be taken at the same time to enforce compulsory saving, by a better regulated and carefully controlled consumption. This however, will not be accepted, if the consciousness prevails amongst the voting public that the Distribution of wealth does not take place on equitable lines; and that those who have continue to increase their possessions more and more, while those who have not enough, continue below par notwithstanding the increase in aggregate production. It is therefore, of the utmost importance that, in the planned development of the country, as much emphasis be laid on improving the man-made laws of distribution, assuring substantial improvement in the standard of living of the masses, as on increase in production. If any portion of the improved production, after the increased consumption has been satisfied, is to be available as Industrial Finance, it is of the utmost importance that the State should intervene and guarantee, such distribution of the wealth produced in the country as to leave no room for discontent or dissatisfaction.

On this assumption of continued improvement in the standard of living, based upon a still greater improvement in the volume of production, effective means may be devised for enforcing Saving, and for mobilising it for investment as soon as formed. Having laid full emphasis on the need for improving the standard of living among the people, there is no need to disguise the fact that, in the initial years of the Plan, India, if she desires to attain success in the Plan within a predetermined period, must insist also on encouraging savings and taking them up for productive reinvestment.

There are a variety of ways evolved and elaborated by the existing regime and its immediate predecessor for its own ends to encourage saving. In other Volumes in this Series, attention has been drawn to the rules and regulations, for example, which govern the Postal Savings Banks. Considerable reform would be necessary if these savings of the poorer strata in the country are to be available for productive investment. A large variety of Postal Saving Bonds or Certificates, carrying interest, is also in use; and offers numberless possibilities for further improvement. The terms and conditions on which they are issued need to be liberalised and made more accessible to the people.

It is unnecessary to enumerate the various ways in which savings may be formed, encouraged, and utilised. Such forms, e.g. the periodical contribution made under the Social Security Scheme, discussed in another Volume in this Series; or the Agricultural Insurance, or the forming and maintaining of reserves of various kinds in the industrial and commercial enterprises actually at work, are all intended to encourage savings on a small as well as a large-scale. Their investment or utilisation is at present more or less at the discretion of the owner. Machinery has, therefore, to be devised to see that the discretion of the individual owner is directed in productive channels desired by the community or required by the Plan, so that new blood would flow into the veins and arteries which are most likely to nourish the body economic. These sources, it need hardly be added, are particular contingencies; and so must be handled with the utmost care, not only to be readily available against a given contingency when it occurs, but also utilised so as to be as fully productive as possible.

A cognate form of encouraging, mobilising and utilising savings lies in the control of banks, their deposits and investment of the same. Banks at present function mostly as private Corporations, financing principally commercial transactions, choosing their own investment, providing their own cash, and altogether free to help such enterprises or business as they think proper, in the interests of their shareholders and their depositors. A large proportion of the working capital of the banks is provided by deposits. To ensure safety of these deposits has necessitated increasing control of banks by legislation which, however, has not yet considered the correlated problem of the proper and productive investment of these funds. That is done at the individual discretion of particular banks; and not as part of the National Plan laying down the directions, industries, enterprises, services or utilities which are considered by that Plan most likely to yield results.

As will be pointed out in the Summary of Developments recent proposals for consolidating Banking Law has also failed to approach the problem from this angle. The projected Nationalisation of the Reserve Bank of India may result in help being afforded in this direction, if the basic National Plan gives clear cut instructions in this behalf. The Reserve Bank today has no Department for financing industries corresponding to its Department of

Agricultural Credit. It is mainly a central bank primarily concerned with the management of the national currency system and looking after Government funds and credit. What ordinary banking business it does, is confined to commercial transactions. Long-range investment in modern productive industry, large-scale or small, remains to be financed by such activities of individual financiers or banks, and on such model as they may feel inclined to provide.

To remedy this great drawback of our economic system a new departure has presently been made. The recently established Industrial Finance Corporation, which will be explained in more detail in the Summary of Developments, is expected to devise ways and means by which Industrial Finance proper is to be found. Control of new capital issues, specially in enterprises financed by or with the help of this Institution, may well be brought about in the form of five, ten, or twenty year bonds, guaranteed by the Corporation, carrying specified interest with specified assurance of capital repayment. If these are negotiable and made payable to Bearer, they cannot but become popular especially if they are made negotiable, and convertible at any given moment without any loss of interest or capital. The old Post Office Certificate used to provide a model of this kind that may well be modernised, and utilised for this purpose.

The State, moreover, in its policy and programme of public borrowing, whether for purposes strictly productive immediately, or in the long run; or for non-productive purposes of Social Services like Education, Health or Housing may provide another outlet for investment with guaranteed return almost in perpetuity. Proper handling of public borrowing may go a great way to enable savings being made, and almost instantaneously absorbed by the State in any of the numerous developments which form integral part of the Plan.

Permanent and basic legislation, and determined executive action based on such legislation would, however, be necessary to take up that portion of the wealth of the community which is locked up in Religious Foundations or Charitable endowments. Reference has already been made in an earlier section of this Introduction, to this incalculable source of ready-made capital available for industrial financing. It is more than likely to be sufficient for providing all the finance that may be required under the Plan. It is unnecessary in this Introduction to dilate much

further upon this item, or elaborate other dveices for improving all available avenues of finding Industrial Finance for an intensive programme of economic development in this country. Suffice it to add that every evidence points to our possessing adequate resources of our own in this regard as in other prerequisites of a Comprehensive National Plan put simultaneously into execution in all sectors and items. The only thing lacking is the Plan itself, which would give full consideration to every requirement of all-round development. If that is properly framed, there would be no need to apprehend its failure or miscarriage for lack of any of the conditions, ingredients or requirements of a proper National Plan.

K. T. Shah.

CHAPTER I

INTERIM REPORT OF THE SUB-COMMITTEE ON INDUSTRIAL FINANCE

1. We beg to submit this Interim Report of the Industrial Finance Sub-Committee of the National Planning Committee. At the outset, it must be said that, looking to the vast importance of this question, we have not had time enough for preparation and submission of our final Report. In our opinion, the work of the Sub-Committee was, to a large extent, inter-dependent on the conclusions reached by other Sub-Committees, particularly Manufacturing Industries, Banking and Currency, and Public Finance; and much as we would have wished it was not found possible for the Sub-Committee to have joint discussions with other Sub-Committees. Obviously, therefore, the Sub-Committee have not had sufficient opportunities for formulating their final conclusions. This Interim Report is, under the circumstances, only a record of the work hitherto done and of the conclusions tentatively arrived at by the Sub-Committee. It must, therefore, be clearly understood that these conclusions, before they reach their final shape, will have to be re-examined in the light of the recommendations of the other Sub-Committees, as also of further data, which may be made available to the Sub-Committee.

2. **State Ownership and Control:** We shall, in the beginning, take up the question of State Ownership and Control, which occupied a very prominent place in the Memorandum of the Chairman of the National Planning Committee, as also in the deliberations of the joint meeting of the Chairmen and Secretaries of the various Sub-Committees held on the 11th February last.

3. This Sub-Committee are of the opinion that they cannot endorse the recommendation that the State should own and control all Defence Industries and Public Utilities; and that the Key Industries may be State-owned or State-controlled. Generally speaking, the Sub-Committee feel that, with the present accepted conception of a modern State, some form of State control regarding all industries is now inevitable. For instance, there is obvious justification for State control in the case of industries protected by the State. As a matter of fact, there is hardly any

industry today, which is not subject to some form of State control, either through enforcement of Factory Laws or through the requirement by the State to supply certain information to the State in regard to the actual working of certain industries. Very important labour legislation by several Provincial Governments has recently been undertaken, and machinery has been set up for the settlement of trade disputes. In regard to sugar industry, certain Provincial Governments have instituted a system of license prescribing various conditions, the fulfilment of which has been laid down as a condition precedent to the grant of a license. In some cases, minimum prices for raw materials like sugarcane are fixed by Provincial Governments. It is obvious, therefore that the principle of State control has come to be accepted by industries in India. The only important question is with regard to the degree of such State control and its possible reaction on the efficient conduct of industries. This naturally leaves considerable scope for difference of opinion.

4. **State Aid to Industries Act:** State control at present is also being exercised in respect of industries, which have obtained direct financial aid from Provincial Governments. As a result of the working of the State Aid to Industries Act, Provincial Governments have also subjected the accounts of such Companies to the independent scrutiny of Government auditors. The results shown by the Companies, which have been subjected to such control, have, in most cases, not been found satisfactory. The examination of the working of the State Aid to Industries Act in various Provinces, reveals the fact that, in a large number of cases, direct financial assistance by Provincial Governments has shown ultimate losses and no important industries have been built up with such direct assistance and with direct control of the State.

5. **Difference between control of industry by State and actual owning and management of industry by State:** There is, moreover, a vast difference between the control of an industry by the State, and the actual owning of an industry and its management by the State. For instance, besides the generally accepted principles of business organisation and management, every business has its own peculiar problems; and it would be difficult even amongst businessmen to expect that amount of knowledge and experience which would ensure a successful and efficient conduct of all possible industries. As the Defence Industries would cover a fairly large field of industries, most of which

would involve not only complicated technical problems but also specialised administrative problems on the business side, it appears to us that the chances of successful management of such industries are considerably smaller if the running of such industries is to be left to the State officials, who lack the necessary preliminary training and experience.

6. On page 102 of the Red Book, a tentative list of Defence Industries is given. Take, for instance, the manufacture of munitions. The Sub-Committee have been advised that even if the State were to own munition factories, the State would have to depend, to a very large extent, on steel manufacturing companies to supply the munition factory with the necessary preparatory material which may constitute the bulk of the manufacturing side of munition making. It is not easy to demarcate between Defence Industries and Key Industries, for instance; and that being so, it appears to the Sub-Committee that in actual practice it would be difficult to draw a limit where the owning of industries by the State would begin and end.

7. This Sub-Committee would deal with the general as well as special aspects of finding the necessary finance for the expansion of existing industries and for the development of new industries in this country. It appears, however, fundamental to the Sub-Committee that, if the necessary finances have to be raised from within the limited resources available in the country, nothing should be done to disturb or impair the confidence of investors in their belief that they would continue to enjoy the benefits accruing to them as a result of the initial enterprise shown by them in making possible the starting and development of industries in the country. The very idea that the State has accepted the policy of nationalising of all industries, raises the natural suspicion in the minds of investors that, if at any time when their investment in industries has reached a stage where it would compensate for the risk originally undertaken by them, the State would take over their property, it is sufficient to frighten away fresh capital going into industries. It is true that the Chairman's Memorandum refers to a decision reached at the meeting of the 11th February last that fair compensation will be paid where a private industry is acquired by the State. How that compensation would be determined does not appear to have been seriously considered. In any case, the fact that the State can at any time acquire a private

Nationalization of Industries.

industry would create an atmosphere of uncertainty, which would reflect in the natural hesitation that would be felt by the management of such industries in regard to their development and expansion. It is a matter of common experience that where private industries undertake expansion and bring in more capital, it is usually on the basis of earning a substantial return on the capital employed in the business. The ideas of Government, according to their standard of equity in regard to the rate of interest that could be earned on the capital employed, differ very widely from those who actually employ money in private industries. For instance, in the new Excess Profits Tax legislation, Government have fixed 8 per cent as the maximum percentage to be allowed on additional capital employed in the business, though they were shown by actual instances from a number of industries that extensions were undertaken because the Company management were satisfied that a much higher return could be obtained on the capital employed. (State would only pay 4% or so on bonds exchanged for shares of Companies).

8. **Social Welfare & Industries:** There is also another aspect of industries being owned by the State. The Sub-Committee take it for granted, that it is the intention of the National Planning Committee to plan out on a wide basis of industrialisation in the country with the definite object of developing several big industries, which are at present lacking in India. These big industries would require a capital outlay of many crores of rupees. The National Planning Committee has also included within its terms of reference planning out schemes for social welfare, which presumably would include schemes like State housing, Insurance, free and compulsory education, medical relief, etc. etc. These social schemes, which are evidently of great importance and have reasons of urgency to justify their early implementation, would require an expenditure of many crores of rupees, which could not, for many years to come, be found entirely out of public revenues. If these schemes are really to be pushed forward, and it cannot be disputed that social services of this character will have an undoubted effect on the increased productivity of Indian industries, it appears to the Sub-Committee that the combined burden of financing social services and the owning of industries by the State would be beyond the means of the State. It appears to the Sub-Committee that, if these two separate branches of the economic plan could be worked out by two separate agen-

cies, namely the State and private enterprise, there would be better hopes of success in either direction.

9. Commercial Discrimination: The Planning Committee in its terms of guidance in the Red Book has asked the Sub-Committees to submit their recommendations, not only with the ultimate goal as their objective, but also in regard to what is practicable under the present conditions. One of the most important circumstances under the present conditions, is the Government of India Act, 1935, which has very stringent provisions regarding discrimination. Unless this Act is amended, it appears to the Sub-Committee that there would be an insurmountable difficulty in the State acquiring private industries, particularly when they are owned by Britishers. This constitutional difficulty would almost leave beyond the pale of practical politics consideration of the right of the State to nationalisation of any existing industry in the country, as certainly the State in India could not conceive of nationalising an industry and leaving that portion of the industry which is not owned by Indians in private hands. To illustrate, Jute, Coal and Tea Industries.

10. Public Utilities: Public Utility industries may be considered in two branches; industries which supply public services like the supply of electric energy, and industries which generate the subject of supply. In regard to the first, the capital aspect does not appear to be very formidable; but in regard to the second, the capital required is so large that it appears to the Sub-Committee extremely doubtful whether, for some considerable time to come yet, the State in India can acquire this branch of the industry. To take one illustration: the capital employed in three Hydro-Electric Companies in Bombay alone works out to a figure of 18 crores. It has several times been stated that with the credit of the State behind it the State could raise unlimited amounts of money to acquire public utility concerns. On a close examination of the credit-worthiness of any State, it could be easily demonstrated that this is a most mistaken conception that a State can borrow for unlimited amounts on its credit. To take a concrete illustration: suppose the Government of Bombay decide to acquire all public utility concerns in the Presidency. The amount of fair compensation that would be required may run into, say, about 30 crores. The State, obviously cannot produce all cash to pay off the holders of securities of the various public utility concerns. The State will, therefore, have to give these holders their own Bonds.

There is not the slightest doubt that, if not all, most of those who would be compulsorily asked to exchange their securities for Government Bonds, would have their confidence so terribly shaken in the credit of the State that they would like to take the earliest opportunity of converting their Bonds into cash, with the obvious consequence that the Bonds would either become unsaleable or would sell at very heavy and substantial discount, establishing a new level of credit for the Government Bonds. Whilst the original Bonds may have been issued on the basis of 3 to 4%, the new credit level established may be on 6, 7 or 8% basis. Any fresh capital borrowing, therefore, either for the purpose of acquiring industries or even for normal capital expenditure of Government would have to be on the new level.

11. On this very vexed question of State ownership and control of industries, the Sub-Committee have reached the following tentative conclusions:—

(1) Defence industries may be State-owned. The Sub-Committee, however recognise the difficulty of distinguishing between defence industries and key industries, or other large-scale industries.

(2) Public utilities may be State-owned, where private enterprise has been found to be lacking. In any case, the State should not disturb continued working of Companies under private enterprise at present.

(3) Key industries may be State-owned or State-controlled. In this case also existing industries under private enterprise should not be disturbed.

CHAPTER II

FINANCE

12. Having thus far dealt with the question of Control and Ownership of Defence industries, other big industries and public utility industries, we shall now deal with the question of Finance.

Major, small and Cottage industries.

Industries are grouped under three heads: Major, Small and Cottage, and while certain aspects of the problem are common to all, each class again has certain individual difficulties and problems of its own. Going back to the past will not help us much; for, the only financing institution which this country knew was that of Sowcars, who financed principally trade and agriculture and, in some cases, cottage industries. The industries which are now known as large or major were not at all in existence at that time; for, we consider those industries large which are run on modern scientific principles by power, whether steam or electricity, and employ hundreds of persons, and, sometimes, thousands, for mass production. Even what are known as small industries did not exist at that time; for, small industries also, according to our conception, are run by power and are recognised under the Factories Act; but the only difference is that they engage a smaller number of people. The technique of the Sowcars, in their banking methods, is fairly well-known; and it is not far from truth to say that they were the prop and pillar of all our trade, agriculture and cottage industries. Since the time, however, industrialisation was introduced in the land and large and small industries began to be established, the problem of industrial finance has been manifesting itself more and more and has been crying out for a solution. The principal agency, through which large industries came to be established in this country, was what is known as the Managing Agency system; and while this system has shown several defects, it must be admitted that it has been principally responsible for starting and maintaining both large and small industries here. The Managing Agents financed, to a large extent, the industries with which they were connected; and also arranged for finance through the Bank, which otherwise would not advance to industries

as such without the guarantee or security of people like the Managing Agents.

Joint Stock Companies as Bankers.

13. The industries were started generally on the Joint Stock principle, and such industrial companies became bankers also as they accepted deposits from the public. In fact, these deposits, at least so far as the Bombay Presidency is concerned, have provided finance, to a large extent, for the proper working of the industries. The difficulty, however, was to be found in times of financial crisis, as these deposits were withdrawn and the industries were left without adequate finance. The deposits have been raised not only to provide working capital; but, in several cases and particularly in Ahmedabad, they have been extensively used to finance capital expenditure. The risk of employing short term deposits for capital expenditure is quite obvious, when it is realised that in times of financial stringency or of panic the deposits are very rapidly withdrawn. The Sub-Committee are definitely of opinion that the dependence of industries for any part of their fixed capital expenditure on deposits is entirely unsound and must be severely discountenanced. The Sub-Committee, however, recognise that this unsound feature in the financing of our industries could not be eliminated without the provision of other financing agency which could secure to industries the necessary finance, both for capital expenditure and working capital. The desirability of making adequate provision for financing the industries was statutorily recognised in England, when the English Companies' Act was amended in 1929. Under the provisions of that Act, every Company must state in its prospectus what arrangements it has made for obtaining the finance and to what extent the subscribed capital would provide for the working capital of the industries. Even in India in the Companies' (Amendment) Act of 1936, there is a similar provision, though the requirement is not so stringent as under the English Companies' Act.

14. The Sub-Committee may lay down as a principle in the financing of industries that the fixed capital expenditure of an industry should be found mainly, if not entirely, from the subscribed and paid-up capital, the balance, if any, being found out of debenture issues. The debenture issues should not, as a rule, exceed 30 to 40 per cent of the entire fixed capital expenditure. A close examination of the capital structures of a large number of

industrial companies in India, indicates that financing through debenture issues has not been in extensive use in India. The Sub-Committee have been informed that there has been an inexplicable reluctance on the part of Indian industrial concerns to resort to any extensive use of debentures for financing the industries. In Western countries like England and the U.S.A., financing through debentures has been extensively resorted to, and the Sub-Committee do not see any reason or justification for the same use not being made in India for the financing of industries. The fear that the credit of an industrial concern is impaired if it raises moneys on debentures, appears to be misplaced and lacks the support of the practice and experience of countries which are in the vanguard of industrial advancement in the world today.

Cash Credit arrangements.

15. The working capital of industries has been found partly through deposits and loans from Managing Agents and partly through cash credit arrangements with Banks. The Sub-Committee notice and welcome the increasing tendency on the part of industrial companies to resort to cash credit arrangement with Banks. Complaints have been frequently made and in some cases not without justification, that in the absence of a widespread net-work of banking offices in the country, these facilities are not so readily made available to Indian industrial concerns; but, it appears to the Sub-Committee that, where industries are well run and are particularly under the management of parties whose credit is established, there should be little difficulty in obtaining the working finance through cash credit arrangements with Banks. These cash credit arrangements are made on the basis of hypothecation or, in some cases, of the pledge of stocks of goods, both manufactured and in process, as well as stocks of raw materials, supported in many cases, by the signatures of the Managing Agents of the Companies. The Sub-Committee are in favour of the development of this system of obtaining working finance, in that, apart from other advantages, it carries with it a very salutary safeguard against over-trading.

Agency for raising long-term finance:

16. The Sub-Committee notice that at present, with very few exceptions, there is hardly any recognised agency for raising long-term finance for industries. Banks in India, as a rule, have followed the practice of English Banks in confining themselves, almost entirely, to what is known as

commercial banking. In the very large majority of cases, Banks also do not command adequate finance to undertake to any large extent provision of long-term finance for industries. In England this part of financing has been done through a special agency known as Underwriting firms. These firms have participation lists, which include a number of Banks, Insurance Companies, Investment Trusts, Finance Houses, Stock Brokers, and a few large wealthy private investors. The Underwriting firms study the new industrial propositons offered to them, and, if satisfied, underwrite the issue of capital by such concerns, for consideration of an underwriting commission. The risk undertaken by the Underwriting firms is spread amongst a number of parties who are on the participation list. This Agency has enabled English industries to obtain their long-term finance through share capital and debentures on very secure and reasonable terms. In India, so far, with one or two exceptions, specialised agencies of this character have been practically non-existent. It appears, therefore, to the Sub-Committee that any scheme of industrialisation that may be planned out for the future, to ensure success, must provide for the organisation of such agencies which will secure to industries the necessary long-term finance.

Industrial Banks.

17. The Sub-Committee had not sufficient time, so far, to consider in detail the various aspects of organising Industrial Banks in the country. They have endeavoured to formulate an estimate of the possible finance that can be raised to effectively carry out a well-considered plan for industrialisation of the country. Unfortunately the estimate of availability of finance could not be related to the possible requirements, as the 10-Year Plan, which the Planning Committee propose to evolve after considering the various Sub-Committee Reports, has not yet been ready. It appears, however, to the Sub-Committee that, if India, in the next ten years, is to develop even a few of the many important key and other large-scale industries, which are non-existent today, the amount of finance that would be required for establishment and running of such industries would be so large that it will not be possible to finance all the necessary projects without active participation of the State. Whilst it is impossible with the limited data available today, to say with any claim to accuracy the amount of capital that can be made available for industries in the future, it appears that the investing habit in

India has not yet developed to an extent which would ensure the supply of the necessary capital funds, even assuming that such capital is lying inert in the country. It is to be admitted that the experience of investors in industrial companies, in many cases, in India, in the past, has not been of a very encouraging character; and that, in the opinion of the Sub-Committee, is really what is meant to be conveyed when it is suggested that capital is shy in India.

The role of the State in industrial finance.

The State, therefore, will have to play its own part in stimulating and reviving the confidence of investors in the profitability of investment in the new industries in the country. Though the Sub-Committee had not much time to examine any scheme in great detail, a tentative scheme has been outlined herein for further consideration. It is proposed that an Industrial Development Fund should be constituted by contributions every year for a period of the next five years from every Provincial Government to the extent of one per cent. of their total annual revenues, and this Fund should be utilised partly for direct financial assistance that may be rendered to industrial companies, and partly to guarantee interest on capital issued by industrial companies. A Central organisation will have to be set up to control the use of this Fund, and it will have to be supported by a small body of experienced businessmen and technical experts, who will study the soundness of the projects submitted, and, if satisfied, recommend such projects for assistance from this Fund. It is proposed that this Fund should be used in such a manner that it will constitute in itself a sort of revolving credit, as the bulk of the Fund will be used in guaranteeing interest on capital issues, a part of it may be definitely lost. The plan carries with it the automatic feature of replenishing its funds through projects which may prove successful. The interest guaranteed under this Fund would be payable only in the initial years of the establishment of industries, and would be returnable when the industries start earning a reasonable return on the capital employed, plus a share of the additional profits made.

Financing of Cottage Industries.

18. The problem of cottage industries stands, perhaps, on a separate footing. As remarked above, cottage industries were financed by Sowcars, and are, to a large extent, being financed even now. Each individual industry may not require big finance; but finance is certainly required. Whether

such finance could be advanced through a bank or through a Co-operative Society or through a Sowcar has to be considered and decided. Cottage industries have, again, to be given facilities for purchases and sales through the agency of Co-operative Societies. The following are mentioned as drawbacks of cottage industries in the Report of the United Provinces Industrial Finance Committee:—

1. difficulty in securing raw material advantageously;
2. lack of system in distribution of raw material among cottage workers;
3. lack of guidance in production in the matter of quality, standard and design;
4. lack of arrangements for giving the necessary finish to manufactured articles;
5. lack of capital;
6. lack of adequate collecting and marketing arrangements;
7. lack of stocks to meet urgent orders;
8. absence of idea of costing; and
9. conservatism, unreliability and illiteracy of cottage workers.

It is interesting to note that the U.P. Industrial Finance Committee recommended the establishment of a U.P. Industrial Credit Bank, Ltd., as a banking structure to aid major and minor industries with a capital of Rs. 25 lakhs, divided into 100,000 shares of Rs. 25 each. The Local Government should guarantee a dividend on the initial paid-up capital of the Bank at the rate of 4 per cent. per annum free of incometax; but, in no case Government guarantee should continue for more than 20 years. That Committee also went into the details with regard to the liability of Government, how to meet the liability, what should be the business of the Bank and who should be the Directors, etc. They also suggested the starting of the United Provinces Products Financing and Marketing Co., Ltd., for financing cottage indusries and marketing of their products.

19. The Indian Central Banking Enquiry Committee in their Report, described the method of financing of rural industries. From the point of view of finance, the artisans can be divided as follows:—

1. Independent artisans.

2. Karkhanadars.
3. Dependent artisans.

Independent artisans—The independent artisans buy the raw material on cash basis and sell the product in the market at the best prices available. They devote part of the week or the month in producing the articles with the help of their family members and one or two employees and spend the rest of the week or the month in selling their wares. They may, if necessary, borrow funds at 12 to 18 per cent. They are hampered by lack of finance, both for appliances and for raw material. They generally suspend their manufacturing operations for about 10 days in a month to sell their products and to recoupe the working capital for further purchases of raw material. Lack of finance and marketing arrangements reduce their productive capacity.

Karkhanadars—The Karkhanadars have either got a shed of their own where the workers come and execute the work, or they distribute the raw material to the workers to be worked up into finished products at their homes. Generally, the wage paid to these workers is very small, but the important factor is that there is some kind of security of income for the artisans. The Karkhanadars generally possess a small capital of their own, and may borrow money at a heavy rate of interest varying between 12 and 18 per cent.

Dependent artisans—The largest number of artisans are in the group mentioned above i.e. dependent artisans. They purchase raw material from the Sowcar on payment of a price much higher than the bazar rate. In some cases they are allowed to sell the product in the bazar and pay back the amount to the Sowcar; but in most cases the Sowcar has a lien on the finished product and purchases it at a price lower than it could fetch in the open market. This class of artisans suffers both-ways, by paying higher price for the raw material and receiving lower price for the finished product. The rate of interest of their loans works out to about 18 to 30 per cent.

The Sowcar has complete hold on the artisans on account of two very important factors, which cannot be overlooked in any scheme of reform: (1) He gives them advances not only for raw material, but also for household expenses, marriage, etc. The artisan can always fall back upon the local Sowcar for help in time of need. It may be very costly help; but it is there nevertheless. (2) He

supplies raw material and takes back the finished product, more or less regularly, giving some kind of semi-permanent employment to the artisans. The traditional dependence on the Sowcar has sapped the enterprise from the artisans.

20. Co-operative Societies were established all over India but most of them failed. The problem of financing cottage industries is not only a question of providing funds, but also of providing appliances and of marketing. Any organisation which aims at only providing funds to artisans is sure to fail, unless it creates a widespread organisation for marketing the product. The question of financing cottage industries, therefore, consists of two important factors, i.e. (1) finance, and (2) marketing organisation. The Government of India had recently allotted a certain amount of money for organisation of the handloom industry. As the conditions of the industry vary somewhat in different Provinces, each Province was given a free hand by the Government of India to tackle the problem facing the handloom weavers. In Madras, a Provincial Marketing Society is established, to which Primary Societies of Handloom Weavers are affiliated. Sales Depots have been established at a number of important centres. The Central Society arranges the supply of material, e.g. yarn, direct from the mills to the Primary Societies on its own guarantee. The Sales Depot purchases the cloth manufactured. The Primary Societies are subsidised and a staff has been appointed to supervise the work.

21. In the Bombay Presidency, the marketing scheme for handloom products, comprises the organisation of District Industrial Co-opeprative Associations with the following aims and objects, namely:—

(1) to supply improved appliances on a hire-purchase system or otherwise;

(2) to supply raw material at reasonable rates;

(3) to advise weavers with regard to the production of improved and easily marketable patterns and designs;

(4) to accept on consignment account against partial payment, handloom products from weavers and to purchase outright handloom products and to sell them; and

(5) to undertake preparatory and finishing processes and dyeing and printing in connection with handloom industry.

Similar schemes with slight variations have been in operation in other Provinces. The aim is to free the artisan from the middlemen. But, in order to free him from the middlemen, it is necessary to organise the whole industry from the beginning to the end and from the stage of purchasing appliances and raw material to the sale of the products.

22. Another important factor is that the organisation has to begin from the top rather than from the bottom, i.e. the Central Organisation for the sale of products and supply of raw material has to be established first. Generally, the organisation is extended downwards, in the hope that Primary Societies of weavers will be organised at a later stage. The Primary Societies can be successfully established only when the members have gained confidence in the Central Sales and Supply Organisation. The weavers have to be shown that they can dispense with the hereditary middlemen without any danger of being left in suspense.

23. In order to rehabilitate cottage industries, the Governments concerned have to take initiative and spend a large amount of money in the beginning to establish proper organisation on the lines indicated above. It is not expected that all the artisans will come within the proposed organisation. A successful organisation is, however, expected to benefit indirectly even those artisans who do not come within its scope. The National Planning Committee may also consider the possibilities of encouraging the establishment of small Karkhanas on Co-operative or profit-sharing basis.

J K. MEHTA,
Secretary.

A. D. SHROFF,
Chairman.

Note by Mr. S. C. Majumdar on the Interim Report

State Ownership & Control: I cannot see eye to eye with the Sub-Committee's recommendations as envisaged in paragraph 3.

(A) **Defence Industry.** I am definitely of opinion that the State should own and control all defence industries. In all countries throughout the world today defence industry is a State owned industry. Whatever might have been the causes in the past of some of the defence industries being privately owned and managed, it has been found politically dangerous to allow private profiteers to own defence industry in this sense that where defence industries are allowed to be exploited by private individuals, their sense of personal gain has been responsible for war-mongering in various countries. This is the most important argument against defence industries being privately owned. Moreover, private individuals must not be allowed to exploit the political sentiments of a country in fostering more and more defence industries and thereby encouraging war at home front as well as in foreign fronts.

(B) **Key Industries.** With regard to key industries, it is increasingly becoming necessary that it should be State owned and controlled. Industries such as Iron and Steel, heavy chemicals and such others are the life blood of a nation and depend, to a great extent, on the support of the State by protective duties as well as other advantages from the State. There is, therefore, no reason whatsoever why the Key Industries should not also be State owned and State controlled.

It may be mentioned that these key industries may be supplying raw materials both for the defence industries as well as what may be termed as civilian industries, e.g. iron and steel may be necessary both for ammunition and other defence purposes as well as for building purposes, house making, roads and bridge making, etc. In the same way, heavy chemicals may be necessary both for gun powder and such other needs of national defence as well as for ordinary industries like Textiles, etc. It may be therefore argued that for that portion of the key industries which are entirely in need of the ordinary civilian industries, State should not undertake the risk and responsibility to that extent. It may not be possible to divide a key

industry into watertight compartments of State owned and private owned organisations. In that case key industries though not actually owned should be so controlled by the State that they should in public interest be at the command of the State for the needs and supplies of the defence industries and must give priority to such State orders for supplying at prices which may be reasonable without making undue profits from the State as well as in other ways.

(C) **Public Utilities.** With regard to Public Utilities, it may or may not be actually owned by the State, but it must be so controlled in the interests of the public that such industries though they may be in private hands must be considered as Semi-Public Institutions. By the very character of Public Utilities being monopolistic concerns, the rules and regulations relating to rate making, employment rules, maximum profit rules and such other rules should be so made as not to allow undue exploitation of the public in private interests. In almost all countries in the world it is now a recognized fact that Public Utilities such as Electricity, Gas, Water Works, Railways and other transport methods of aviation should be so controlled in public interests that it must not have any character, whatsoever of private money-making machines. The only argument against State and Government trading is that there is an element of risk in trading which the Government should not undetrake. Now in case of Public Utilities, there is absolutely no element of risk whatsoever so as not to allow a Government to own and control Public Utilities though, as I have indicated above, that in the initial stages in India all Public Utilities need not be immediately State Owned, but it should be so controlled that it must lose all its character of private trading. Apart from any other country, the recent report regarding the conducting of electricity concerns in Bombay Presidency submitted by the Special Officer appointed by the Government of Bombay in 1938 goes to show the gross inefficiency and the undue character of exploitation of Public Utilities by private enterprises. I am not one of those who believe that private business organisations are all efficient, whereas businesses conducted by State or Semi-Public Bodies are inefficient. On the contrary, I would have much more faith in business administration carried out by public servants with proper training in particular departments than administration of business by private individuals for private gains, particularly because private individuals for private

gains have shown absolute lack of public morality and public good, whereas it has always been found that State officials who are trained for business control are quite efficient and amenable to sense of public good. The tremendous success of business administration by persons like Sir Ardeshir Dalal and several other members of the Indian Civil Service in condutcing huge business concerns like the Tata Iron and Steel Company, Electric Supplies, Banks, etc., are a great tribute to the public servants of a country and nail to the counter the lie that business-houses cannot be administered by public servants. Even in countries like England it has been found that high retired officers are as much competent, if not more, in administration of large business-houses as the so-called business magnates. This feature of the administration of large industrial and business-houses in England during the last few years, particularly after the last war, has countered all the false notions that business administration can best be done by the so-called business magnates only with efficiency. What is considered as the gain in business efficiency when an industry or business is administered by private individals, is lost by the lack of public good, including labour welfare and such other things, recruitment rules, etc.

(D) The next group of industries which are neither defence industries nor key industries nor public utilities may be left over to the development by private owned capital in the following manner:—

(a) If an industry is protected and State aided, the State must have such control over the industry as is required in public interests to do so, including labour legislation, regulation as to the management and such other control, maximum rate of dividend payments, so that the public may not be exploited because of protection and such other control including control of inspection, compulsory amalgamation for rationalisation in country's interest, e.g. Textile Industry.

(b) **Industries which are unprotected.** In regard to these industries certain general regulations and control of the State must also be exercised in regard to labour legislation, rationalisation of industries in the interests of the public and such other regulations.

Paragraph 4. With regard to paragraph 4, the losses, in my opinion, sustained by the various Provincial Governments mentioned in the interim report in aiding industries are not due to the dircet control of such industries,

but they are due to the half-hearted manner in which private individuals were given State aid without proper control of the State in conducting those industries. It is worthwhile to investigate further in this matter instead of alleging that the failure of such State aided industries are due to State control and State assistance.

Paragraph 5. With regard to paragraph 5, I have already indicated above my views regarding defence industries as well as administration of such industries by Public Utilities instead of so-called experienced business magnates.

Paragraph 7. With regard to paragraph 7, I do not at all agree with the Sub-Committee's findings that as a result of the State owning and controlling certain industries, necessary capital would not be forthcoming because of the lack of confidence of the investors. Our investors in this country will, I am sure, not take much long time to change their angle of vision in regard to industries owned and controlled by the State and Private Ownership. It may be recalled here that in years past when the Railways were being handed over to the State Ownership and State control, this was one of the favourable arguments that was advanced against such transfer to the State. I am sure that the investors in this country today would be only too willing if a State owned Railway or State owned industry were to issue debenture against the intrinsic assets of these concerns and there will be no difficulty whatsoever in the least to find ready response, probably better response than when Government issues loans against tax revenue earnings. I think our Sub-Committee has underestimated the public psychology in regard to modern tendency of the investors. A vast portion of the investors want high grade securities with fixed interest earnings and not speculative counters, though it may give slightly higher yield, unless they are misled by the so-called financial experts.

The qusetion of fresh capital supply to any particular industry is more or less a question of confidence in an industry. There is no reason whatsoever to believe that if an industry is State controlled and State owned, there will be any dearth of capital as envisaged by the Sub-Committee. Moreover with the credit and standing of the State, it would be easier to marshal capital at a much cheaper price than an industry owned by an individual can command confidence. My own impression is that our Sub-

Committee had not taken fully the spirit of planned industrialisation as opposed to mere industrialisation of the country, and that is where the difference lies.

Paragraph 8. Paragraph 8 also practically covers the same ground that there will be terrible lack of capital available in this country for a nation-wide basis of industrialisation. As pointed out in my note to the Sub-Committee on "Attraction of Foreign Capital" I do not at all apprehend any lack of capital available in this country nor any lack of capital outlay in industries provided this can be organised in a proper manner. I am sorry to say that the Sub-Committee had not taken the trouble of investigating the possible sources of availability of capital in this country for the next 10/15 years to come. If they undertake a serious investigation of the possible savings and capital development in this country as well as marshalling such available capital in a proper manner, I do not at all apprehend that there is going to be any lack of capital available in this country.

Paragraph 9. I have nothing to add in this regard.

Paragraph 10. I do not agree with the Sub-Committee's apprehensions that if Public Utility Concerns in the Bombay Presidency were to be nationalised the State would find it difficult to finance the same. If railways with an investment of about Rs. 300 crores could convert such assets from private ownership to State ownership without slight disturbance to the money market, I do not see how it is difficult to the Government of Bombay to raise a capital of Rs. 300 crores in order to take over the Public Utility Concerns. In fact it will not be at all a question of raising capital. The total assets of the Public Utility Concerns in this Presidency will have merely to be converted into total stock of debentures and the present holders of the shares of the Public Utility Concerns will in return for their shares be given debentures at fixed interest rate instead. As such, the question of finding cash does not at all arise.

Paragraph 11. With regard to the three conclusions arrived at, I have indicated my point of difference in previous paragraphs from the interpretations of the Sub-Committee's recommendations.

1. (a) Defence industries **must** be State owned and State controlled.
   (b) Key industries may be State owned and must be controlled in such a manner as to be subject to national interests in all respects.

2. Public Utilities may be State owned. In case it is not State owned, it should be so controlled in the public interest that it must lose its character of making undue gain from its monopolistic character as well as other forms of control in public interest.

3. Key Industries may be State owned or State controlled as indicated above. I do not agree with the latter part of the conclusion.

Paragrah 12. I do not agree with the conclusions in regard to the Managing Agents. Managing Agency System is today more an hindrance for the progress and development of industrialisation on healthy lines in this country than a help at all and as such it should be immediately abolished. Managing Agency System had been supported in the past on two grounds.

(A) That they bring expert management in their concerns. An investigation in this direction would show how in regard to "A" the Managing Agents in industries in this country hardly brought any expert management in the industries. They have always relied for expert management on outside agencies on additional payment by these companies. As such the Management by Managing Agency System had always put an additional burden on the industry to a very great extent. Moreover it had always stood in the way of introduction of fresh and vigorous blood in the efficient management of industries in the self interest of the Managing Agents. The example of the Textile Industry is a point in question.

(B) "That the Managing Agents found financial help to the Companies under their management"—with regard to this ("B") it is hardly found in companies that where Managing Agency System is prevalent the Managing Agents have ever taken **major portion of the share capital** or debenture holdings in the industries under their control. These Managing Agents in their turn have always relied on Underwriters and Financiers for their initial capital requirements of the industry. After all, the capital supply ultimately comes from the general Public and not from the Managing Agency class. At best they can get some underwriting commission as promoters or financing commission when they do actually take some risk in guaranteeing a loan to an industry under their control but not the undue and disproportionate advantages as at present. These Managing Agents class on an average take the maxi-

mum cream in various ways of an industry without much risk to themselves.

To me it seems this question of provision of capital in the absence of Managing Agents is merely a defect in the system and organisation of our capital resources and once they are freed from the undue control of the financiers there would be no need for a Managing Agent to guarantee the loan for an industry under his care.

As envisaged in one of the paragraphs of my note on "Attraction of Foreign Capital" that under a planned system of industrial development the Banks and other capital gathering agencies, will be more and more prepared to finance an industry, the prospects of which have been investigated by a competent Council like the Industrial Research Council and recommended by the National Planning Council. Introduction of Managing Agency would be superfluous inasmuch as the existence of Managing Agents would unduly add to the cost of management without any appreciable advantage to the industry itself.

Paragraph 13. I have nothing to add.

Paragraph 14. I have nothing to add.

Paragraph 15. Banks in this country have never keenly taken to industrial finance following the method of the British Banks, mainly because most of the Joint Stock Banks operating in this country had in the early stages been managed by British Managers and their outlook of finance has been entirely on the basis of what they had learnt in the London Money Market ignoring all the while the various other institutions that are there, for finding industrial finance in England. These Joint Stock Banks operating in India had also their special reason for discouraging industrial finance because they did not want India to be industrially forging ahead which might compete with British Industries. Their special mission was to finance the export of raw materials from this country and import of the finished products from British industrial houses. There is, therefore, a great need for changing the outlook of Bank Managers in this country in this regard and make them take active participation in the development of industries in this country. Our Commercial Banks can copy the models of Great German Commercial Banks who had always taken active interest in promotion of Industrial finance in that country. The Cash Credit system can give only partial help in providing for the working capital for industries.

Paragraph 16. I have nothing to add.

Paragraph 17. Industrial Banks in this country have not had much of success. As such care should be taken in establishing special type of Industrial Banks so that they are very well linked with the credit structure of the country as a whole and not merely isolated attempts for development of Industrial Banks.

These are in main my objections to the Interim Report of the Sub-Committee.

Note by Dr. Gyan Chand on the Interim Report

I want to begin the note by stressing the fact mentioned in the Report that in spite of the importance of the subject, the Sub-Committee has not given adequate time or thought to it and the conclusions embodied in it need to be scrutinized and revised with much greater care and attention to details.

As the National Planning Committee has already accepted the principle of nationalization of defence and public utility industries I do not propose to discuss the point at any length. All that I need say is that I am not in agreement with the view expressed in the Report and am of opinion that advantages of nationalization of these industries outweigh their disadvantages. Public management and administration of these industries is not only of vital importance from the national standpoint, but is a perfectly practical proposition and will not involve loss of efficiency or economy. Holding this view as I do, I regret that I cannot subscribe to the premises and conclusions of Chapter I of the Report.

The view expressed in Chapter I is really at variance with the main recommendation of the Report which assigns to the State the responsibility for financing the industrial development of the country by constituting an Industrial Development Fund made up of the provincial contributions. If the State is to be called upon to guarantee interest on capital issues, it cannot possibly divest itself of the power and responsibility of ensuring that industrial undertakings financed by this method are efficiently managed and in the best interests of the community. Immediate need of the country is the rapid development of heavy industries and they are all industries which are either defence or basic industries. They should be financed directly by the State by the issue of debentures and their surplus profit utilized for finding funds for further development of these and other industries. Private enterprise cannot be in place in the development of these industries. The pace of development will fall short of the needs of the country if these industries are left in private hands and the amount of control which is necessary to secure co-ordination and appropriate localization will not be fully secured. The right

course for the State is to take initiative in the starting of these industries and assume full responsibility for their administration. Right method of their administration will require careful thought and will have to be so devised that efficiency is combined with flexibility and public responsibility. These industries, as I have said above, should be financed by the issue of public funds and made autonomous in matters of finance and administration.

As regards the other industries which may for the time being be regarded as a suitable field for private enterprise probably the method of financing suggested in the Report would be found most satisfactory. A revolving fund for providing State guarantee of interest for specified period should be constituted by the State, which will be bound not only to examine the initial proposals through a suitable public agency but also keep in intimate touch with the administration of these industries to safeguard public interest from every point of view. The guarantee of interest will, of course, mean that if the rate of profit earned by these concerns does not cover the interest charge, the deficit will be made up by the State. That amounts to guaranteeing a minimum rate of profit, but if these concerns are to be assured that their profits will not fall below a certain limit, they will also have to accept the limitation on the maximum rate of profit. The lower and upper limits would be necessary to safeguard the interest of the producers and the community. The Constitution of the body on whose advice the State will rely for extending aid to these industries is again a matter which requires careful consideration; but granting that such a body is constituted, its function will be not merely to recommend the grant of financial aid but also to exercise supervision over the management of the industries, which are thus developed and make constructive proposals for their further development and organization from time to time. For the discharge of the latter function this authority will require its technical experts who will have to be full-time staff officers of the organization.

The guarantee system implies that the undertakings referred to above will raise their funds mainly by the issue of stocks and shares. But it may also be necessary, as pointed out in the Report, to use debenture issues to a greater extent than hitherto for financing industrial development, and in certain cases it may be desirable for the State to finance industries direct by subscribing to their

share capital and purchasing debentures. An institution which will be practically an issue house, to do the underwriting work and float debentures for the State-managed and State-guaranteed undertakings will be required for looking after the industrial finance activities of the State. It can also undertake the work which is being done by the Investment Unit Trusts in the West by providing facilities to the investors to distribute risks and put the money in concerns of dfferent kinds. These institutions should work in close co-operation with the Investment Board suggested by the Public Finance Sub-Committee and become the instrument for the regulation of all public and private investments in the country. Owing to the fact that the institution will have multiple functions, it will be necessary to divide it into a number of distinct departments, but it is highly desirable that the control, regulation and allocation of capital resources should be centralised so far as the questions of policy are concerned. Central control of policy need not however involve centralised administration and the latter should be made as flexible as necessary and adjusted to local needs and conditions.

I, at the time of writing this note, do not know the recommendations of the Insurance Sub-Committee. The Insurance Companies have, in all countries, acquired great importance as investment institutions. In India the Insurance business has shown considerable expansion and has further possibilities. I am of opinion that the State should take over all the assets and liabilities of the Insurance Companies—Indian and non-Indian—now operating in India, and make insurance one of its own functions. Liquid resources, which accrue to the Insurance Companies every year, amount to about 4 to 5 crores and if the insurance business is properly organised and developed, they can be largely increased. A large proportion of their assets the Indian Companies have under the new Act to invest a proportion of their funds in India. These tendencies should be further developed. In Insurance size of the insuring undertaking is an element of strength and if the whole business is unified, diversified and developed, insurance will become a more important factor in our national life and can take in various forms of social insurance now unknown in the country. From the point of view of industrial finance the gain from this change will be that the enlarged resources of a unified and socialized Insurance Corporation will place at the disposal of the Investment Board large funds for financing long-term credit requirements of

industry—funds which from the nature of things will go on increasing.

So far as the cottage industries are concerned, I agree with the view expressed in the Report that the main object of the financial aid should be to free the artisan from the middleman who is exploiting him and will continue to exploit him unless the State intervenes to protect him and relieve him from the necessity of depending upon the middlemen. And this object can be achieved by integrating the aid which the State is prepared to give in the matter of finance, technique and marketing. The cottage workers have to be distinguished according to their functions viz: (a) art-craft worker, (b) artisans producing staple goods for wide markets, and (c) village artisans who are an organic part of the village economy. Their conditions of work and needs are different and have to be dealt with separately. To these classes have to be added workers for whom manufacture is a subsidiary business. They have to be further sub-divided into workers producing for the markets and workers producing for use. The number of workers in the last category ought to increase in the transition stage of India's industrial development. Their financial requirements will have to be specially considered and separately provided for. The main guiding principle should be the integration of the three functions referred to above through co-operative organization.

These views have had to be expressed in general terms and need to be elaborated in relation to the concrete requirements of the National Plan. But in my opinion they indicate the lines on which we can proceed in setting up an organization which can become increasingly adequate and effective for dealing with the financial aspects of industrial development.

Note by Dr. P. S. Lokanathan on the Interim Report

"Many thanks for your letter. I am afraid I cannot give an unqualified assent to the Interim Report of the Industrial Finance Committee. It was obvious at the second meeting of the Sub-Committee when discussions took place for the first time that there was real divergence in points of view between members of the Sub-Committee. While conclusions recorded were admittedly a compromise between opposing and conflicting points of view, the tenor of the Interim Report seems rather one-sided and does not do justice to the point of view expressed by me and Mr. Mohiudin of Hyderabad.

Para 3 of the Interim Report: I cannot subscribe to the categorical statement that Sub-Committee cannot endorse the recommendation that "the State should own and control all defence industries and public utilities and that the key industries may be state-owned or state-controlled." My own view expressed at the meeting itself (which I reaffirm) is that in principle state-ownership and control should be accepted, but that in its application, the question whether State should buy up already existing and established defence industries or public utilities should be decided only on a careful consideration of all relevant factors. There is no need to buy up existing industries unless they are not amenable to reasonable control nor is it advisable to do so when all available funds have to be used for the financing of new industries.

Paras 5 and 6: While the problems of technique, administration and management require specialised abilities, it is wrong to assume that the industries would be run as if they were government departments, and then argue that Government should not own them. These industries would be run on business lines and administered in the same way as private industries are now managed and would be free from all governmental interferences in their day-to-day administration.

Again merely because there would be difficulties of demarcation between defence industries and key industries, it is not right to close the door against state-ownership and management. There would always be border line cases, but it is practicable to devise a system by which

certain types of industries may be taken over by the State for ownership and/or management, while others would only be controlled by the State.

The statement that policy of nationalisation of industries would scare away investors may or may not be correct; but the opposite view that therefore the State should not adopt nationalisation as a policy runs counter to the fundamental basis of National Planning. It is true that those who manage industries which are likely to become state-owned or state-managed are likely to feel a little nervous about developing and expanding their businesses. But if sufficient time and notice be given to such businesses, and arrangements made for financing, expansion and development in the intervening period, no serious difficulty need be experienced even in those cases.

Para 8: The Interim Report suggests line of division between the sphere of State activity and private enterprise whereby only social services should be undertaken by the State and all industrial development should be left to private enterprise. I must dissent from this view. It is not a division that can result either in efficient production or just distribution. One would almost think judging from the tenor of the Interim Report that the State is there only to take up all liabilities and leave all profits to the capitalists. The Report recommends in para 17 that every Provincial Government should contribute to an Industrial Development Fund for a period of five years at the rate of one per cent. of its annual revenues, to guarantee interest on capital issued by private industrial companies. Whatever precautions may be taken to ensure proper use of this Fund, loss is almost inevitable. Why the taxpayer's money should be diverted to finance and enrich the private capitalist is not clear. After all industrial development is not an end in itself. It is only a means of increasing the well-being and standard of living of the masses of the population. The Interim Report betrays undue anxiety for the interests of the capitalist. It leaves the labourer, the consumer and the taxpayer to his fate. It neglects the important problems of distribution and of equitable adjustment between the relations of the taxpayer and the capitalist.

Subject to the above, I accept the conclusions of the report.

(Sd.) P. S. Lokanathan.

*APPENDIX A.

Extracts from a note on Long-term Capital
by
Dr. P. S. Lokanathan, Madras.

As regards long-term capital the problem should be broken up into parts with a view to its proper understanding. There is first of all the question of the supply of initial capital which ultimately should be raised from the public in the form of ordinary and preference shares. But between the stages of promoting of the business and its ultimate ownership in the hands of investing public, there is a definite time lag and some machinery is needed to fill the gap.

Two methods are open either alternatively or in combination. (1) Some of the bigger joint stock banks may adapt themselves to undertake the mixed banking characteristic of Germany and other continental countries. There is a risk in this, but the major banks may undertake the task without serious danger. (2) A special institution may be established by the banks themselves as a subsidiary on which industrial interests too may be represented. Neither of these methods requires any State assistance.

There is next the problem of long-term capital for development, extension and also occasionally during the periods of relative adversity. It is here that the role of the State can be employed with advantage to the country. There are no financial institutions at present which can give to industry the long term credit it requires.

The experience of other countries is of great value here. The Industrial Bank of Japan started with a large Government subsidy is an instance of a Bank which has played large part in the importation of foreign capital, in securing the Industrial development of the country, in developing shipping and in financing medium sized and even small scale industries. But the most outstanding development in recent years is the formation of what are known as Industrial Mortgage Banks granting long-term amortisation loan against industrial property like factories, plant, etc. What

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* These appendices to the Report contained material which is also found in the separate notes added by each writer. *Editor.*

Land Mortgage Banks do for Agriculture, Industrial Mortgage banks do for industry. The Industrial Mortgage Bank of Finland, The Industrial Mortgage Institute of Hungary, the Provincial Mortgage Bank of Saxony and the National Economic Bank of Poland are instances in point. While all of them receive a guarantee on their debenture bonds some are private joint stock banks while others are entirely owned and partially owned by State. In other words, the whole or major portion of share capital is owned by the State. These Industrial Mortgage Banks have a reasonable measure of success and have done useful service in financing the long-term requirements of large and medium sized industries by granting them loans against their properties in the form of buildings, plant and machinery.

A case may be made out for the establishment of a similar Industrial Mortgage Bank for All-India with Provincial Association. The debenture bonds should be issued by the Central Institute while the actual loans will be disbursed by the Provincial Associations against Mortgages of Industrial property. Government may subscribe for a certain portion of share capital, but the bonds must be most important source of funds which should be provided by the public with a definite Government guarantee to start with. Whether Government should take the initiative in establishing the all India Industrial Mortgage Bank or wait for the initiative to come from bankers and industrialists, is a matter which requires further consideration. The function of such mortgage banks will not be to underwrite the shares but only to give mortgage credit.

All the above considerations apply to private competitive industry. But the financing of defence industries, key industries and public utilities should be the special concern of the State, as those industries are of national importance and form part of an all-round economic development. An institution on an all-India basis for the basic plan. The financing of defence and key industries should be started with share capital entirely provided by the State and with power to issue debentures on a definite guarantee of interest. Its function will be to promote, underwrite and finance such industries. The usual arguments against State aid cannot apply in such cases for here the industries are State owned and State controlled, and they should be so.

So far as public utilities of a provincial character are concerned, they may be financed by Provincial Industrial

Corporations established by Provincial Governments. At present these Governments place some capital funds at their disposal, and although run apparently as commercial concerns, they are too much influenced by bureaucratic methods of administration and financial agency for the financing of public utilities and any other industries which provinces consider to be of national importance.

As already pointed out, all funds under the State aid to Industries Act must be placed with a recognised Joint Stock Bank which should actually disburse them to the applicants. Or in the alternative Government may agree to re-imburse the banks of any loss they were put to by assisting the industries under the State Aid to Industries Act. In the absence of any arrangement as above indicated the financial corporation established by provincial Governments may be entrusted with the task of financing the needs of all small and medium sized industries under the Act.

APPENDIX B.

Extracts from a note on Foreign Capital
by
Mr. S. C. Majumdar, Bombay.

The attraction of foreign capital assumes not only an economic rule, but also a political role of great importance. The origin of such foreign capital investments may be found in the development of Colonial system of Government which was pushed with energy in the beginning of early nineteenth century by countries like England, France, etc. This, therefore, was the history of entry of foreign capital in India. The Britishers were anxious to develop plantations, ports, railways and agricultural industries for the raw materials for their industries and hence they began to invest large sums of money on their account in various public bodies and commercial investments. The use of external capital may be divided into (a) Government borrowings. (b) Local Bodies' borrowings, ((c) Commercial Capital including specific borrowings of Railways, etc. He observes that ordinarily speaking, such foreign capital would not be objectionable as most of the countries before the war resorted to foreign borrowings where capital was cheaper for the quicker development of their industries. Even very important countries like U.S.A., Japan, used to borrow large sums till before the last war for industrial development in these countries. Countries like China, South America, Mexico, and all the countries in Africa, India and most of the new Eastern and Far Eastern States have been developed wth foreign capital and still doing so. British Dominions of very huge dimensions like Canada, Australia, New Zealand, are no exception to this rule.

Such foreign borrowings by most of the countries created vested interests and led to political and commercial pressure of the third degree on such countries by the lending countries. It is said that today China is ruled by British, Amrican, and Japanese capitalists, and today's fight between China and Japan is really a fight between Japan and other Western powers of vested interests, who control the economic life of the country through high foreign investments. The case of U.S.A. and Japan and such other Sovereign States as well as self-governing Dominions with

full national and fiscal autonomy rights, such as foreign capital, has however different significance where it is not possible for the lending country to exercise any political right or pressure. Here in India, whenever the question of political advancement was raised, it is these foreign vested interests who have raised the loudest voice against such advancement for fear of losing the backdoor methods of their activities in this country and have agitated for all sorts of protections and commercial safeguards in the new constitution.

The various aspects of foreign capital in India have had the attention of the Indian public from time to time. The first time it came into prominence was at the time of the External Capital Committee which issued its Report in the year 1925. The External Capital Committee was presided over by the late Sir Basil Blackett and quite an illustrious group of people, both from the Government of India, as well as from the Indian public, were the members of the Committee. Some of them being Mr. T. C. Goswami, Sir Charles Innes (the then Commerce Member), Sir P. S. Sivaswami Iyer, Sir W. Currie, Pandit Madan Mohan Malaviya, Sir Dwarkanath Mitter, the Hon'ble Mr. G. A. Natesan and Mr. J. B. Taylor (now Sir and Governor, Reserve Bank of India) as Secretary.

The recommendations of that Committee favoured to a great degree the development of industries by Indian capital in preference to foreign capital. It was also later on more or less agreed by the Government of India that as far as the foreign companies operating in India with foreign capital were concerned, they must conform to certain regulations regarding its management and capital subscriptions. Although the Indian Members of the Committee insisted that the majority of the capital should be Indian and at least 75 per cent. of the Directorate should be Indian.

All such resolutions of the Government of India in the interests of the nationals, which should have formed the primary consideration in giving any concessions to foreign capital have hardly been observed in practice. It is only well-known how foreign companies under Indian names have been getting all sorts of concessions in this country, both from the Government as well as from various Indian States to the detriment of our national industries. Public attention had recently been drawn to a series of such incorporated companies in India, particularly the Imperial Chemicals, Lever Brother (India), Ltd., Bata Shoe

Co. (India), Ltd., and hundreds of such other concerns. This problem of foreign companies operating under false Indian names have become so damaging to Indian industries that it was referred to by a writer in the "HARIJAN" as the "Menace of '(India)' Ltd." So much so that the Congress Working Committee had to pass a resolution in 1938 pointing out as to what should be considered as a foreign company for the purpose of support by the Indians. The Working Committee of the Congress also said in this regard as follows:—

> "The Working Committee have no objection to the use of foreign capital or to the employment of foreign talent when such are not available in India or when India needs them, but on condition that such capital and such talent are under the control, direction and management of Indians and are used in the interests of India."

APPENDIX C.

Industries Financed by the Banks.

N. W. F. P.

Tea
Timber
Skins
Carpets
Dried fruits

Punjab (Including Delhi)

Coal merchants
Cotton
Iron & Steel
Rice Mills
Flour Mills
Salt
Salt Petre
Paper
Skins
Printing
Furniture & Stationery
Silk
Timber
Hosiery
Oil Mills

U. P.

Sugar
Flour
Woollen Mills
Jute Mills
Cotton Mills
Cloth & Yarn Mills
Engineering Works
Oil Mills
Leather Works
Electrical Concerns

Bihar & Orissa

Rice
Oil Mills
Iron & Steel
Coal
Mica
Sugar

Assam

Tea

Burma

Rice & Timber

Bengal

Jute
Piecegoods
Tea
Shellac
Flour
Timber
Rice
Coal
Cotton
Pottery
Stone & Lime
Spirits
Rope & Plant
Fireclay
Provisions
Haberdashery
Electric Supply Companies
Chemists & Druggists

Engineering
Inland Navigation Companies
Light Railways
Corrugated Iron
Potato Crop.

Bombay

Cotton
Tobacco
Potteries
Gunnies
Ghee
Shellac

Madras

Planting in its various forms
Rice Mills
Sweetmeats
Skins
Jute
Cotton
Provisions
Motor Trade
Factories of coconut products
Sandal Wood.

(Taken from the Indian Central Banking Enquiry Committee Oral Evidence, Vol. 3, Page 968).

Note by A. D. Shroff

The Sub-Committee have carefully considered the Memorandum of the Chairman of the Planning Committee and the decision reached at the joint meeting of the Chairmen and Secretaries of the various sub-committees of the 11th February last.

2. This sub-committee is of the opinion that it cannot endorse the recommendation that the State should own and control all defence industries and public utilities and that the key industries may be State owned or State controlled. Generally speaking the sub-committee feels that with the present accepted conception of a modern State, some form of State control regarding all industries is now inevitable. For instance, there is obvious justification for State control in the case of industries protected by the State. As a matter of fact there is hardly any industry today which is not subject to some form of State control either through the enforcement of Factory Laws or through the requirement by the State to supply certain information to the State in regard to the actual working of certain industries. Very important labour legislation in several Provincial Governments has recently been undertaken and machinery has been set up for settlement of trade disputes. In regard to sugar industry, certain Provincial Governments have instituted a system of licence prescribing various conditions, the fulfilment of which has been laid down as a condition precedent to the grant of a licence. In some cases minimum prices for raw materials like sugarcane are fixed by Provincial Governments. It is obvious therefore that the principle of State control has come to be accepted by industries in India. The only important question is with regard to the degree of such State Control and its possible reaction on the efficiency and conduct of industries. This naturally leaves considerable scope for difference of opinion.

3. State control at present is also being exercised in respect of industries which have obtained direct financial aid from Provincial Governments as a result of the working of the State Aid to Industries Act. Provincial Governments have appointed Directors on Companies' Board under this Act and have also subjected the accounts of such Companies to the independent scrutiny of Government Auditors. The

results shown by the Companies which have been subjected to such control have in most cases not been found satisfactory. The examination of the working of the State Aid to Industries Act in various Provinces reveal the fact that in a large number of cases direct financial assistance by Provincial Governments has also shown ultimate losses and no important industries have been built up with such direct assistance and with direct control of the State.

4. There is moreover a vast difference between the control of an Industry by the State and the actual owning of an industry and its management by the State. For instance, besides the generally accepted principles of business organisation and management, every business has its own peculiar problems and it would be difficult even amongst businessmen to expect that amount of knowledge and experience which would ensure a successful and efficient conduct of all possible industries. As the Defence Industries would cover a fairly large field of industries, most of which would involve not only complicated technical problems but also specialised administrative problems on the business side, it appears to the Committee that the chances of successful management of such industries are considerably smaller if the running of such industries is to be left to State officials who lack the necessary preliminary training and experience.

5. On Page 102 of the Red Book a tentative list of Defence Industries is given. Take for instance the manufacture of munition. The Committee has been advised that even if the State were to own munition factories, the State would have to depend to a very large extent on steel manufacturing companies to supply the munition factory with the necessary preparatory material which may constitute the bulk of the manufacturing side of munition making. It is not easy to demarcate between Defence Industries and Key Industries for instance, and that being so, it appears to the Committee that in actual practice it would be difficult to draw a limit where the owning of industries by the State would begin and end.

6. This sub-committee would deal with the general as well as special aspects of finding the necessary finance for the expansion of existing industries and for the development of new industries in this country. It appears however fundamental to this sub-committee that if the necessary finances have to be raised from within the limited resources available in the country, nothing should be done to disturb

or impair the confidence of investors in their belief that they would continue to enjoy the benefits accruing to them as a result of the initial enterprise shown by them in making possible the starting and development of industries in the country. The very idea that the State has accepted the policy of nationalising of all industries raises the natural suspicion in the minds of investors that any time when their investment in industries has reached a stage where it would compensate for the risk originally undertaken by them and for the previous losses incurred, the State can take over the industry. This suspicion is sufficient to frighten away fresh capital going into industries.

7. It is true that the Chairman's Memorandum refers to a decision reached at the meeting of the 11th February that fair compensation will be paid where a private industry is acquired by the State. How that compensation would be determined does not appear to have been seriously considered. In any case the fact that the State can at any time acquire a private industry would create an atmosphere of uncertainty which would be reflected in the natural hesitation that would be felt by the management of such industries in regard to their development and expansion. It is a matter of common experience that where private industries undertake expansion and bring in more capital, it is usually on the basis of earning substantially large percentage on the capital employed in the business. The ideas of Government according to their standard of equity in regard to the rate of interest that could be earned on the capital employed differ very widely from those who actually employ money in private industries. For instance in the new E.P.T. Bill, Government have fixed 8% as the maximum percentage to be allowed on additional capital employed in the business, though they were shown by actual instance from a number of industries that extensions were undertaken because the company management were satisfied that a much higher return could be obtained on the capital employed.

8. There is also another aspect of industries being owned by the State. The sub-committee takes it for granted that it is the intention of the N.P.C. to plan out on a wide basis of industrialisation in the country with the definite object of developing several big industries which are at present lacking in India. These big industries would

ing out schemes for social welfare which presumably would include schemes like State housing, insurance, free and compulsory education, medical relief, etc., etc. These social schemes which are evidently of great importance and have reasons of urgency to justify their early implementation would require an expenditure of many crores of rupees which will not for many years to come be found entirely out of public revenues. If these schemes are really to be pushed forward, and it cannot be doubted that social services of this character will have an undoubted effect on the increased productivity of Indian industries, it appears to the Committee that the combined burden of financing social services and the owning of industries by the State would be beyond the means of the State. It appears to the Committee that if these two separate branches of the economic plan could be worked out by two separate agencies, namely, the State and private enterprise, there would be better hopes of success in either direction.

9. The Planning Committee in its terms of guidance in the Red Book has asked the sub-committees to submit their recommendations not only with the ultimate goal as their objective but also in regard to what is practical under the present conditions. One of the most important circumstances under the present conditions is the Government of India Act 1935, which has very stringent provisions regarding discrimination. Unless this Act is changed, it appears to the Committee that there would be an insurmountable difficulty in the State acquiring private industries particularly when they are owned by Britishers. This Constitutional difficulty would almost leave beyond the pale of practical politics consideration of the right of the State to nationalisation of any existing industry in the country, as certainly the State in India could not conceive of nationalising an industry and leaving that portion of the industry which is not owned by Indians in private hands. To illustrate: jute, coal and tea industries.

10. **Public Utilities:**—These industries can only be considered in two branches: industries which supply public services like the supply of electric energy and industries which generate the subject of supply. In regard to the first, the capital aspect does not appear to be very formidable, but in regard to the second the capital required would be so large that it appears to the Committee extremely doubtful whether for some considerable time to come yet the State in India can acquire this branch of the industry.

To take one illustration: the capital employed in 3 Hydro-Electric Companies in Bombay alone works out to a figure of 18 crores. It has several times been stated that with the credit of the State behind it the State could raise unlimited amounts of money to acquire public utility concerns. On a close examination of the creditworthiness of the State it could be easily demonstrated that this is a most mistaken conception that a State can borrow for unlimited amounts on its credit. To take a concrete illustration: suppose the Government of Bombay decide to acquire all possible utility concerns in the Presidency, the amount of fair compensation that would be required may run into say about 30 crores. The State obviously cannot produce all cash to pay off the holders of securities of the various public utility companies. The State will therefore have to give these holders their own bonds. There is not the slightest doubt that if not all, most of those who would be compulsorily asked to exchange their securities for Government Bonds would have their confidence so terribly shaken in the credit of the State that they would like to take the earliest opportunity of converting their Bonds into cash, with the obvious consequence that the 100 rupee par bonds would either become unsaleable or would sell at very heavy and substantial discounts establishing a new level of credit for the Government bonds. Whilst the original bonds may have been issued on the basis of 3 to 4%, the new credit level established may be on 6, 7 or 8% basis. Any fresh capital borrowing therefore, either for the purpose of acquiring industries or even for normal capital expenditure of Government, would have to be on the new credit level.

Note by Mr. J. K. Mehta

One of the biggest problems confronting industries in this country is the problem of finance. Industries are grouped under three heads, Major, Small and Cottage and while certain aspects of the problem are common to all, each class again has got certain individual difficulties and problems of its own. Going back to the past will not help us much, for the only financing institution which this country knew was that of Sowcars, who financed principally trade and agriculture and in some cases cottage industries. The industries which are now known as large or major were not at all in existence at that time, for we consider those industries large which are run on modern scientific principles by power, whether steam or electricity and employ hundreds of persons and sometimes thousands for the mass production. Even what are known as small industries did not exist at that time, for small industries also, according to our conception, are run by power and are recognised under the Factories Act, but the only difference is that they engage a smaller number of people. The technique of the Sowcars in their banking methods is fairly well known and it is not far from truth to say that they were the prop and pillar of all our trade, agriculture and cottage industries. Since the time, however, industrialisation was introduced in the land and large and small factories began to be established, the problem of industrial finance has been manifesting itself more and more and has been crying out for a solution. The principal agency through which large industries came to be established in this country was what is known as the Managing Agency System and while this system has got its defects, it must be admitted that it was principally responsible for starting and maintaining both large and small scale industries here. The Managing Agents financed, to a large extent, the industries with which they were connected and also arranged for finance through the banks which otherwise would not advance to industries as such without the guarantee or security of people like Managing Agents.

The industries were started generally on the joint-stock principle and these companies became bankers also as they accepted deposit from the public. In fact these deposits,

at least so far as the Bombay Presidency is concerned, provide finance for the proper working of the industries. The difficulty, however, was to be found in times of financial crisis, as these deposits were withdrawn and the industries were left without proper finance. There is a difficulty more and more found with regard to this method of getting finance through deposits and it may be said that this method can no longer be employed. The Managing Agency System also is now slowly but steadily going out and Managing Agents find it increasingly difficult to finance the industries with which they are concerned. Under these circumstances, the question of Industrial Finance becomes acute. It will be found more and more that it will not be only in the case of new industries that the difficulty of finance will be found, but also in the case of old and established industries. The Indian Central Banking Enquiry Committee reported in favour of establishing a special type of industrial bank or banks to finance industrial concerns. They observe that even the conservative school emphasised the importance of the private effort in the matter of securing the initial block capital, and that in view of the shyness of Indian capital an Industrial Bank might be of some advantage in mobilising capital and turning it into channels of productive investment. They set forward arguments both in favour of Central Institution and in favour of Provincial Institutions, which are summarised below:

1. The financial position of the Provincial Governments at the present moment is not propitious for starting provincial industrial banks. Under existing conditions it will be more practicable for the Central Government to find the money required either for subscribing to the capital of the bank or for guaranteeing the return on the capital than for each Provincial Government to do so.

2. It will be easier for an all-India bank to raise the capital required in the shape of shares and debentures than for a provincial bank. The Directorate which will be drawn from the best men in all the provinces will be able to command more confidence and this coupled with their wider knowledge and outlook will make it possible to raise funds more economically and cheaply. The instance of the Madras Central Land Mortgage Bank was quoted in this connection where the central institution was started in order to issue centralised debentures in place of a number of issues by small independent primary banks which were neither popular nor cheap.

3. An All-India Bank with greater resources and with its funds laid out in a variety of industrial concerns will be better able to tide over periods of loss due to general depression and other causes than a number of independent provincial banks. Some witnesses have, on the other hand, stated that if owing to the preponderant voice of the larger industries, the funds of the central institution came to be invested in those industries, the alleged advantages from distribution of risks would be almost non-existent.

4. An All-India Bank would be of immense benefit to the country in guiding its industrial development on sound lines. It will be able, by its experience and knowledge gathered from all parts of India and tabulated by a well-equipped intelligence department attached to the bank, to act as a guide and friend to all industrial concerns in India, young and old. It will prevent uneconomical and wasteful efforts to start industries in places where there are no possibilities and it will itself be in a position to formulate schemes for industrial development besides analysing and criticising propositions placed before it for the financial assistance and support. We have also heard the opposite view from some witnesses that it is not the function of an All-India Industrial Bank to participate actively in directing the industrial development of the country. In the opinion of these witnesses the industrial survey of the country with a view to exploring the possibilities of development is a matter for private enterprise as well as for the Government concerned; and it would be dangerous for a bank to advise on industrial possibilities, as it will increase the bank's own responsibility in the event of any financial loss.

5. It will be more economical for a central institution to engage technical experts to advise on industrial propositions throughout the country than for each provincial bank to requisition the services of independent experts and pay for them. Moreover an expert who has acquired experience with a central institution of conditions in all parts of India will be able to give more valuable advice to the bank and industries than one with limited experience in a single province.

Arguments in support of Provincial Industrial Banks:

1. In regard to the grant of financial assistance by Government it will be easier for each Provincial Government to find its small share than for the Central Govern-

ment to meet the requirements, large in the total, of all the provinces.

2. 'Industries' is at present a transferred Provincial subject and if it continues to be so in any scheme of future political reform in India, it is but proper that any expenditure in connection with financial assistances to industries and industrial banks should be left to be scrutinised and shouldered by the Provincial Government instead of by the Central Government. For this purpose it is necessary that the proposed industrial bank should be originated on a provincial rather than on an all-India basis.

3. The advantages of a centralised issue of share and debenture capital are real within certain limits. But at the same time, the urge of provincial patriotism and the competition of the Government of India for capital in the all-India markets are factors which have also to be reckoned with.

4. Provincial banks would be able to look after the requirements of the industries in the respective provinces better than an all-India bank, even though the latter might have provincial branches. The proposed industrial banks should also provide the financial requirements of cottage industries and a central all-India institution would not be able to satisfactorily discharge its functions in this regard. The United Provinces Committee have pointed out that though a single central bank would make both for efficiency, management and economy, there is a danger of interest of the smaller industries being sacrificed to the need of the larger. The Bihar and Orissa Committee's observations regarding the working of the Managing Agency system in that province from Calcutta and Bombay emphasise the drawbacks of management from a distant centre from the point of view of provincial interest. An important Indian Chamber of Commerce in their evidence have shown their anxiety that even within the province the interests of one division which is industrially backward should not be overridden by those of another division which is industrially more forward and important. It is argued that all this points to the desirability of starting the proposed new institutions on a provincial basis.

5. The economy arising out of the engagement of technical experts at the centre is, it is stated, unimportant, as occasions for the use of their services will be few and far between, and it will be more convenient to engage and pay

for the services of the best available expert for the occasion than to engage a wholetime officer for the purpose.

Mr. Manu Subedar, who wrote the Minority Report of the Indian Central Banking Enquiry Committee, while he admits that the banks, including the Imperial Bank, are financing industries, says that the financing of industry has become more restricted than hitherto, as it was urged that banks could and should lend only for short period. He says that banks in India have not yet fully realised their responsibility to industry, which can never remain in a stable condition. He also says that they (Banks) have done a dis-service to themselves and to industry through an exaggerated adherence to the principle of short-term investments. A reference is made in the beginning to the difficulties in the way of financing industries which could not be financed directly on account of two signatures on promissory notes which the Imperial Bank was obliged to get by their Act. How far the industries in Bombay and Ahmedabad have been financed by Managing Agents, by banks, by deposits, etc., is illustrated in the table which has been given in the Minority Report:

(In lakhs of rupees.)

	Bombay (figures for 64 mills)		*Ahmedabad* (figures for 56 mills)	
	Rs.	% of total finance.	Rs.	% of total finance.
1. Amount loaned by the Managing Agents	532	21	264	24
2. Amount loaned by banks ..	226	9	42	4
3. Amount of public deposits ..	273	11	426	39
4. Amount of share capital.. ..	1214	49	340	32
5. Amount of debentures issued ..	238*	10	8	1

He strongly criticises the attitude of the foreign experts who appeared to be anxious to establish the principle that it would be improper for banks to give finance to industrial concerns either for capital shortage in the block, or for extensions, or for normal working capital. The foreign experts also were opposed to the idea of an industrial bank, and were sceptical about its need. They were frankly hostile to the notion of State aid extended to industry through a special institution of this kind or in any other

* Made up of: 46 from Managing agents, 53 from banks, 139 from public.

way. They said, "We consider these suggestions thoroughly unsound and we do not doubt that, should the Provincial Governments follow the lines of these suggestions, tax-payers would be involved in serious losses. The experience obtained under the State Aid to Industries Acts, now in operation in some of the Provinces, may serve as a deterrent example. This experience is the common one in cases where a system of extensive State aid in economic life has been introduced".

Mr. Subedar himself recommends that an Industrial Bank should be established with branches for the present at Bombay, Calcutta, Madras, Lahore, and Cawnpore, but does not support the proposal for independent provincial industrial banks. He observes that the larger economic considerations affecting the nation as a whole, and the more urgent financial considerations affecting the successful working of the industrial bank, point to the need of an All-India organisation.

European institutions like the Bombay Chamber of Commerce are not in favour of utilising the services of banks for mobilising capital. They add that in the case of Germany, for example, bank or a group of banks is usually to be found on the prospectus of such industrial issues, who to a certain extent guarantee them. With regard to India, however, they say that an industry ought not to be started unless people are prepared to come forward and put up the money and it is no duty of a bank to gamble in industries. Mr. Kasturbhai Lalbhai appears to support the contention of Mr. Subedar that only a central bank can know the different conditions existing in different parts of the country.

Next in importance to this idea of industrial banks is the suggestion that Government themselves should advance help in some form or other to industries. The following measures of Government assistance have been suggested:—

a. Guarantee of interest on share capital.
b. Guarantee of share capital.
c. Guarantee of interest on debentures.
d. Guarantee of principal of debentures.
e. Inclusion of debentures in the list of Trustee securities.

With regard to the Loan Policy to be pursued by Government, Sir Sorabji Pochkhanawala, Chairman of the Industrial Finance Committee of U.P., 1935, observed that

large loans had been a complete failure whereas the smaller loans might be said to have been more or less successful. In the case of several large loans not only had Government suffered considerable loss, but, except perhaps in the case of glass, they had not accomplished the object for which they were granted. One of the reasons for this failure was that there was very little expert advice at the disposal of the Director of Industries to enable him to investigate applications properly.

Sir Sorabji Pochkhanawala was also the Chairman of the Ceylon Banking Commission and observed that the problem of procuring financial assistance for industries was of more than ordinary difficulty in Ceylon. The view of certain sections in Ceylon was that either Government should directly finance industries or an industrial bank with Government support should be established to undertake this function. The Commission, however, thought that in Ceylon the conditions were entirely different and that these suggestions would not at all be practicable in Ceylon.

What has been said above with regard to large industries applies more or less equally to the small industries. With the establishment of Provincial autonomy attention has come naturally to be directed more and more to the organisation and development of small industries. Upto recently the large industries were claiming the attention of the Central Government and the various organised commercial institutions like the Chambers of Commerce were also principally considering the question of large industries when they pressed for Tariff protection, Railway Rates protection, organised help, technical assistance, etc., to industries. With the advent of Provincial autonomy the pendulum has necessarily, to some extent, changed; the large industries still look to the Central Government for any help they require as the questions with which they are mainly concerned, like tariff protection or protection against competition from foreign industries or help in the shape of lowering of railway rates and freights are all in the purview of the Central Government. The small industries, however, look for assistance to the Provincial Governments.

The difficulties of finance with regard to very small industries which require a capital of only say Rs. 5,000 to Rs. 10,000, are, though it may be paradoxical to say so, much more than those experienced by large industries. No bank will trouble itself about advancing these small loans to small industries specially when there is a danger of these

loans being not returned. The late Sir Sorabji Pochkhanawala once had an idea that something should be done in the direction of advancing or securing help to small industries. He thought that if a small Committee of businessmen were organised to act as advisors whenever any applications for small loans were received for industries, it would go a great way in the direction of solving the problem. Unfortunately, the idea was not properly dealt with and was given up before it could be said that it had proved a failure.

The Government of Bombay recently adopted the principle of giving some loans, but the amount advanced was very petty and naturally it could not be otherwise looking to the fact that they had sanctioned only Rs. 10,000 or so. The U.P. Government worked perhaps more in advance of the other Governments and burnt their fingers also. The question of financing these small industries might well be taken up by an industrial bank whether Central or Provincial or by a commercial bank which might consider the advisability of opening a section for this purpose. Government might consider the feasibility of extending their limit of loans to small industries.

The problem of cottage industries stands perhaps on a separate footing. As is remarked above, cottage industries were financed by Sowcars, and are, perhaps, being financed even now. Each individual may not require a big finance, but finance is certainly required. Whether such a finance could be advanced through a bank or through a co-operative society or through a Sowcar has to be considered and decided. Cottage industries have again to be given facilities for purchases and sales through the agency of co-operative societies. The following were mentioned as drawback of cottage industries in the Report of the U.P. Industrial Finance Committee:

1. difficulty in securing raw material advantageously;
2. lack of system in distribution of raw material among cottage workers;
3. lack of guidance in production in the matter of quality, standard and design;
4. lack of arrangements for giving the necessary finish to manufactured articles;
5. lack of capital;
6. lack of adequate collecting and marketing arrangements;
7. lack of stocks to meet urgent orders;
8. absence of any idea of costing; and

9. conservatism, unreliability and illiteracy of the cottage workers.

It is interesting to note that the U.P. Industrial Finance Committee recommended the establishment of a U.P. Industrial Credit Bank, Ltd., as a banking structure to aid major and minor industries with a capital of Rs. 25 lakhs, divided into 100,000 shares of Rs. 25/- each. The local Government should guarantee a dividend on the initial paid up capital of the bank at the rate of 4% per annum free of income-tax; but in no case Government guarantee should continue for more than 20 years. The Committee also went into the details with regard to the liability of Government, how to meet the liability, what should be the business of the bank and who should be the directors, etc. The Committee also suggest the starting of the U.P. Products Financing and Marketing Co., Ltd., for financing cottage industries and marketing of products.

Before I conclude I would like to give here a list of the industries financed by banks in the different provinces which may give an idea of the work which it is possible to be done through banks. I also give a list of Major, Minor and Cottage industries given by Sir Sorabji Pochkhanawala in the Report of the U.P. Industrial Finance Committee.

INDUSTRIES FINANCED BY THE BANKS

N.W.F.P.

Tea,
Timber.
Skins.
Carpets.
Dried fruits.

Punjab (including Delhi)

Coal merchants.
Cotton.
Iron & Steel.
Rice Mills.
Flour Mills.
Salt.
Salt Petre.
Paper.
Skins.
Printing.
Furniture and Stationery.
Silk.
Timber.
Hosiery.
Oil Mills.

U.P.

Sugar.
Flour.
Woollen Mills.
Jute Mills.
Cotton Mills.
Cloth & Yarn Mills.
Engineering Works.
Oil Mills.
Leather Works.
Electrical Concerns.

Bihar & Orissa:

Rice.
Oil Mills.
Iron & Steel.
Coal.
Mica.
Sugar.

Assam:

Tea.

Burma:

Rice & Timber.

Bengal:

Jute.
Piecegoods.
Tea.
Shellac.
Flour.
Timber.
Rice.
Coal.
Cotton.
Pottery.
Stone & Lime.
Spirits.
Rope & Plant.
Fireclay.
Provisions.
Haberdashery.
Electric Supply Companies.
Chemists & Druggists.
Engineering.
Inland Navigation Companies.
Light Railways.
Corrugated Iron.
Potato Crop.

Bombay:

Cotton.
Tobacco.
Potteries.
Gunnies.

Ghee.
Shellac.

Madras:

Planting in its various forms.
Rice Mills.
Sweetmeats.
Skins.
Jute.
Cotton.
Provisions.
Motor Trade.
Factories of Coconut Products.
Sandal Wood.
(Taken from the Indian Central Banking Enquiry Committee Oral Evidence, Vol. 3. Page 968.).

MAJOR INDUSTRIES IN THE UNITED PROVINCES:

1. Cotton Spinning & Weaving.
2. Sugar Manufacture in Vacuum Pan Factories.
3. Wool Spinning and Weaving.
4. Oil.
5. Generation of Electricity.
6. Leather, including Tanning.
7. Printing Press.
8. Distilleries and Breweries.
9. Flour.
10. Paper.
11. Match.
12. Cotton Ginning and Pressing.
13. Glass.
14. Rosin and Turpentine.
15. Bobbin-making.
16. Jute.
17. Tobacco-cigarette.
18. Iron Rolling Works.
19. Hosiery.
20. Manufacture of Aluminium Ware.
21. Iron Foundries.
22. Kutch Making.
23. Heavy Chemicals.
24. Brush making.
25. Tea
26. Saw Mills.
27. Rice.
28. Silk.
29. Soap..
30. Opium.

MINOR INDUSTRIES IN THE UNITED PROVINCES:

1. Iron and Engineering Works including Electric Work. (Small).
2. Tanning.
3. Soap.
4. Ink.
5. Cigarettes and Bidis.
6. Tobacco chewing and smoking.
7. Card box making.
8. Pencil.
9. Wood working and carving and Saw mills.
10. Printing Press.
11. Lock Making.
12. Iron Foundry (small workshop).
13. Glass bangle.
14. Brass casting.
15. Shoe making.
16. Perfumery (Itars).
17. Biological Specimens and slides.
18. Sunn hemp baling.
19. Lace making.
20. Electric fans.
21. Fire works.
22. Shellac making.
23. Pharmaceutical Works.
24. Lime.
25. Kutch making.
26. Tile & bricks.
27. Disinfectants.
28. Confectionery.
29. Embroidery with gold wire.
30. Cricket balls.
31. Open pan sugar.
32. Handloom Weaving Factories.
33. Carpet and Durree Weaving.
34. Salt Petre.
35. Chemicals including Acids.
36. Scientific Instruments.
37. Fountain Pens.
38. Scents, Hair Oils and Cosmetics.
39. Electroplating.
40. Wire Drawing.
41. Enamelling.
42. Steel trunk making.
43. Hosiery.

44. Button making.
45. Cutlery.
46. Scissors making.
47. Marble work.
48. Boot lace.
49. Lead leaf making.
50. Saddlery.
51. Pottery.
52. Dyeing.
53. Mathematical and Geometrical Instruments.
54. Tent making.
55. Taxidermy.
56. Jam making.
57. Biscuit making.
58. Rice hulling.
59. Vinegar making.
60. Dal splitting.
61. Metal pressing.
62. Gold and silver ornaments.
63. Wool Spinning.
64. Gold thread making.
65. Gota weaving.
66. Tin Can making.
67. Metal utensil making.
68. Art Brassware.

COTTAGE INDUSTRIES IN THE UNITED PROVINCES:

1. Weaving of cotton wool and silk.
2. Shellac making.
3. Carpet weaving.
4. Durrie weaving.
5. Embroidery, silk cotton and gold wire.
6. Gold thread making.
7. Metal utensils.
8. Oil pressing.
9. Saltpetre refining.
10. Art brassware.
11. Whip making.
12. Cotton and silk printing.
13. Glue making.
14. Wood work and wood carving.
15. Scissors making.
16. Leather working.
17. Tatpatti weaving.
18. Marble work and stone dressing.

19. Silk rearing.
20. Glass bangle.
21. Cricket Balls.
22. Saddlery.
23. Dyeing.
24. Lock Making.
25. Steel Trunks and Iron Safe Making.
26. Cutlery.
27. Pottery.
28. Hosiery.
29. Tobacco- Chewing and Smoking.
30. Wire Drawing.
31. Making of Gold Wire for Embroidery.
32. Wooden and Horn Comb Making.
33. Toy Making.
34. Bird Making.
35. Tent Making.
36. Brass Inlay on wood work—tarkashi.
37. Perfumery.
38. Namda or Felt Making.
39. Ebony Work.
40. Gota Weaving.
41. Ghee Making.
42. Jewellery.
43. Gold and Silver Ornaments.
44. Lac Bangles.
45. Vinegar Making.
46. Kite Flying Yarn.
47. Lead Leaf Making.
48. Gold and Silver Leaf.
49. Pickle and Jams.
50. Surma or Antimony.
51. Tabla and other Indian Musical Instruments.
52. Brush Making.
53. Ivory.
54. Basket Making.
55. Rope Making.
56. Clayfigures.
57. Paper Machine.
58. Glass Bead Curtains.
59. Rath and Bullock Cart Making.
60. Confectionery.
61. Tin Smithy.
62. Taxidermy.

63. Kutch Making.
64. Bidar Work.
65. Artificial Flowers.
66. Fire Work.
67. Moss Stone Work. (Banda).
68. Munj Mat & Twine.
69. Cane & Bamboo Work.
70. Cast Brass Fitting.
71. Book Binding.
72. Picture Framing.
73. Lampshade Making.
74. Cardboard Box Making.

JOINT STOCK COMPANIES WORKING IN BRITISH INDIA.

Registered In India		1936	Registered in Foreign Countries.	
Class of companies	No.	Paid up capital	No.	Paid up Capital
		Rs.		£
Banking & Loan	2003	28,21,65,018	29	56,934,448
Insurance	786	3,66,97,872	147	89,005,706
Navigation	49	2,69,46,727	22	44,533,147
Railways & Tramways	45	14,75,01,505	18	25,094,909
Other Transit & Transport ..	342	4,85,92,457	12	2,110,251
Trading & Mfg. Companies ..	4333	98,41,18,187	373	341,286,452
Tea	472	13,60,79,618	175	27,982,327
Other Planting Companies ..	101	1,71,23,804	29	3,238,849
Coal Mining	262	9,74,48,651	4	240,000
Gold Mining	4	2,10,704	1	....
Other Mining & Quarrying Cos.	101	28,91,68,150	31	123,666,200
Cotton Mills	331	31,85,90,186	4	600,000
Jute Mills	82	19,13,13,966	5	2,752,400
Mills for Wool, Silk, Hemp, etc.	26	2,39,97,140	..	....
Cotton ginning, pressing, baling, etc.	131	2,17,55,338	2	150,000
Jute Presses	35	2,10,15,093	..	....
Flour Mills	30	1,18,02,070	..	....
Estate, Land & Building ..	209	12,08,00,839	6	1,012,339
Sugar (including Jaggery) ..	199	9,34,12,916	1	280,000
Other companies	789	11,06,04,168	33	6,505,783
Total..	10,339	297,93,44,404	892	725,392,811

JOINT STOCK COMPANIES WORKING IN INDIAN STATES

Registered in Indian States		1936	Registered in Foreign Countries.	
Class of Companies	No.	Paid-up capital	No.	Paid-up capital.
		Rs.		£
Banking & Loan	471	4,00,85,225	..	....
Insurance	43	4,74,358	4	663,650
Navigation	1	1,32,456	..	....
Railways & Tramways ..	1	6,95,765	..	....
Other Transit & Transport ..	15	7,19,267	..	....
Trading & Mfg. Cos.	211	1,74,74,408	8	8,808,788
Tea	14	37,88,785	8	515,985
Other Planting Cos.	31	45,88,763	16	1,608,038
Coal Mining	1	63,21,450	..	....
Gold Mining	..	....	6	1,744,846
Other Mining & Quarrying Cos.	9	15,75,886	2	....
Cotton Mills	41	5,28,73,416	3	255,830
Jute Mills	..	....	1	81,000
Mills for Wool, Silk, etc. ..	3	4,32,837	..	....
Cotton ginning, pressing etc. ..	3	10,29,006	..	....
Jute presses	..	....	..	....
Flour Mills	1	1,01,050	..	....
Estate Land & Bldgs. ..	6	3,04,314	..	....
Sugar	3	24,12,020	..	....
Other companies	36	22,29,702	..	....
Total. .	890	13,52,20,708	48	13,678,137

DEPOSITS.

A. Imperial Bank & Joint Stock Banks.* (1936)

Imperial Bank of India:

	Rs.
Public	....
Private	78,79,50,000
Joint Stock Banks ..	98,14,26,000
Total ..	176,93,76,000

(The latest report (1938/39) of the Reserve Bank of India writes that there are 57 Scheduled Banks, the number of their total offices being 1125. Besides the banks scheduled to the Reserve Bank of India, a large number of Banking & Loan companies totalling about 1500, of which there are roughly 300 with a paid-up capital and reserves of Rs. 50,000, and over, function.)

* Banks with a paid-up capital and reserve of Rs. 5 lakhs.

B. Indian Co-operative Banks.* (1936-37)

Number of Banks	..	44
Deposits & Loans held	..	Rs. 20,51,96,000

(*Banks with a paid-up capital and reserve of Rs. 5 lakhs.)

C. Co-operative Societies. 1936-37. (Rs. in thousands)

	No. of Societies. (1)	Deposits by Members (2)	State Aid (3)	Reserve (4)	Total (5)
Central	1,185	..	1,869	4,26,32	38,59,83
Agricultural	81,805	1,26,13	900	8,73,16	31,16,44
Non-Agricultural	11,322	6,85,21	4,941	2,84,74	22,15,79
Total ..	94,312	8,11,34	7,710	15,84,22	91,92,06

INSURANCE COMPANIES IN INDIA.

A.

		Total Assets.
Indian ..	232	50,21 lakhs
Non-Indian	147	49,00 lakhs
Total	379	99,21 lakhs

B.

Post Office Savings Bank Deposit	..	81,94 lakhs
Post Office Cash Certificates ..	..	59,57 lakhs
	Total	141,51 lakhs

C. Deposits in Reserve Bank:

Government ..	..	19,67 lakhs
Bank	..	11,41 lakhs
Other	..	77 lakhs
	Total	31,85 lakhs

What is Seyd Company?

It was a private Company founded in 1858 in London. Afterwards on first July, 1908 it became a registered Company with an authorised capital of £40,000/-, each share of £10/- fully paid. The present directors are (1) R. E. Seyd, (2) Earnest Whithers and (3) H. O. Seyd. The first two are the Managing Directors. The name of the Secretary is H. A. Haris. It is the banking and credit agency, and formerly did business in the name of Seyd & Co.

Industrial Investment Trust Companies.

The following are the important Industrial Investment Trusts in India. Ordinarily we expect them to finance new

industries, but it has been known that they have so far financed concerns either already existing under their own management or such other concerns in which their interests originally existed, though of course nothing can stop them from financing absolutely new concerns.

Name	Secretaries.	Paid-up Capital.
1. Bird & Co., Calcutta	Bird & Co., Calcutta	Rs. 30 lakhs.
2. Investment & Finance Co., Calcutta	Bird & Co., Calcutta	Rs. 4½ lakhs.
3. General Investment & Trust Co., Calcutta	Bird & Co., Calcutta	Rs. 4 lakhs.
4. Industrial Investment Trust, Bombay	Premchand Roychand & Sons.	Rs. 50 lakhs.
5. New India Investment Corporation, Calcutta	Ramdutt Ramkisondas	Rs. 23,61,666.
6. Tata Investment Trust (Private Company), Bombay	Tata Sons, Bombay	Rs. 93 .25 lakhs
7. Consolidated Investment Trust. (Private Co.), Bombay	Tata Sons, Bombay	Rs. 70 lakhs.
8. Hindusthan Investment Corporation, Madras.	Mr. B. N. Viswanathan (*Managing Director*)	Rs. 2,50,000

TRENDS IN INDUSTRIAL FINANCE

By

Dr. P. S. Lokanathan, D.Sc.

The problem of industrial finance, important as it has always been since the Industrial Commission surveyed the field in 1918, has once again been brought to the forefront on account of another war which finds India in the same state of unreadiness as she was during the last war. There is to-day, however, greater realisation of the opportunities to industrial expansion which the war has opened up and of the need to avail of them. But of practical action there seems to be little in evidence either on the side of Government or of private industrialists. On the other hand, the industrial reorganisation and expansion contemplated by the National Planning Committee implies a consideration of the methods of industrial financing proper to such expansion. In one way or another, therefore, whether as a result of the need for industrial development on account of the natural protection afforded by the war or on account of the more permanent schemes of expansion outlined by the Planning Committee, the question of industrial finance has to be fully examined if hopes of the country are not to be thwarted.

The first consideration that will have to be borne in mind is that finance cannot be entirely dissociated from industrial organisation and management, and experience has shown that too often the so-called inadequacy of financial facilities is often a cloak to cover the defects of management. Not even the most efficient banking and financial organisation can help an industrialist whose estimates of his financial requirements are grossly faulty and who therefore starts his business on an utterly inadequate financial plan or whose judgement of the profitability of his venture is hopelessly untrustworthy. For example, out of the large number of applications received from small and medium sized businesses for assistance from the Government of Madras, 90 per cent. are so unsound in themselves that they do not deserve the slightest financial aid. Again the short though limited experience of the Tata Industrial Bank clearly revealed the fact that its willingness to assist industries financially and to underwrite the shares of new

companies was limited by "the want of sound new propositions." The existence of profitable opportunities is a necessary condition of industrial financing and as long as these are lacking, finance cannot create them. The view expressed long ago by the Industrial Commission that "the difficulty in raising capital for industries is mainly the measure, even in India, not of the insufficiency or inaccessibility of money, but of the opinion which its possessors hold of the industrial propositions put before them" remains still true.

Secondly, the notion that it is the duty of the ordinary deposit banks to provide the whole of the working capital of a business and if possible even a portion of the block capital has persisted to this day and is partly responsible for the systematic under-capitalisation in many industries. Such a view is entirely untenable. Too often the initial paid-up capital has been insufficient to pay for the fixed expenditure required and quite inadequate for the minimum working capital which is in reality in the nature of permanent capital and, therefore, must be raised in the form of permanent finance by way either of shares or debentures. Without a change in the whole spirit and structure of commercial banking in India, it would be impossible for banks to attempt to finance the long-term needs of industry. But even in Germany or in other countries of Europe where banking is of the mixed type, doing both commercial and industrial financing, the banks serve only as a temporary intermediary between the industrial company and the public, and finance the long-term needs only in the hope that ultimately the public could be persuaded to take up the shares and debentures gauranteed by the banks. But the defects of such a system have been apparent during the last depression and everywhere there is a feeling that commercial banks are taking too much risk in investing the public's deposits in industrial undertakings, and legislation has been attempted in some countries in Europe with a view to restricting the powers of commercial banks in respect of industrial financing. Hence industrialists in India will do well not to rest their hopes too much on their ability to bring about a change in the banking structure of India so as to make it correspond to the mixed system of banking as in Europe.

Since the ordinary banks in India do not cater to the long-term requirements of industry, there has been a tendency, in all discussions on the subject, to concentrate attention on proposals for the establishment of institutions

which would provide industries with long-term capital to the exclusion of perhaps the more important problem of a well-organised system of commercial banking. Contrary to the widely held opinion that because deposit banks do not grant long-term credit nor give advances aganist the security of buildings and plants they are of no consequence to industrial finance, the present writer holds the view that in the consolidation and development of a sound money and banking organisation with all that it implies lies the key to the solution of a large part of the problem of industrial finance.

There are those who hold the view that India does not abound in untapped banking facilities and that the scope for further extension is somewhat limited. When it is remembered that nearly 85 per cent. of the towns in India are not served by a bank, that industries suffer from lack of remittance facilities, and that several small industries in Bengal, Bihar, United Provinces, etc. depend upon moneylenders for all the short-term capital they need, it is clear that an extension of banking on modern lines is the most urgent need of the hour. The most serious handicap to medium sized industrial units is the high cost of capital and the mobilisation of money through the extension of banking facilities would have the effect of bringing about a reduction in the rate of interest, not so much of the capital supplied by joint-stock banks themselves as of that part of the capital now provided at an exorbitant rate by the indigenous banker and moneylender. The smaller collieries and tea estates have had to borrow at rates of interest varying from 18 to 36 per cent. It is true that increased deposits are conditioned by an increase in the incomes and the savings habit of the people. But the position is undoubtedly improving. The closing of the former avenues to employment of the public's resources in the form of loans to consumption and of private moneylending has diverted resources to banking deposits. The regulation of moneylending, the fixing of the rates of interest on agricultural loans which most provinces have now adopted, and the restrictions imposed generally on usurious lending will have the effect of cheapening the credit available to industry and agriculture alike. Savings may increasingly be expected to take the form of banking deposits. But no permanent reduction in the rate of interest on borrowings can be secured unless the indigenous bankers who play such a large part in the financing of agriculture and small industries are brought within the ambit

of the money market and are linked up with the Reserve Bank on a regular and well-defined basis. The conditions proposed by the Reserve Bank to ensure this end are rather stringent and should be relaxed if the full benefit of the re-organised indigenous banking system is to accrue to the industrialist.

The establishment of the Reserve Bank of India in 1935 marks an important stage in the banking organisation of the country. Prior to its establishment there was divided control of the currency and credit conditions of the country. Government controlled the currency, and credit was controlled if at all by the Imperial Bank of India. Not only was there a lack of coordination between the two but often occasions arose when Government carried on their money market operations without reference to the conditions of credit available to industry. The new Reserve Bank of India may certainly be expected to obviate such defects in the old system. But experience of the working of the Reserve Bank during the last three years has already indicated certain shortcomings in the Act which need to be rectified. There has been a definite misunderstanding between the Reserve Bank and the joint-stock banks as to the occasions when the former may be expected to come to the aid of the latter and as to the quality of the paper that will be regarded by the Reserve Bank as eligible for discount. These misunderstandings should be set right, and one of the main purposes of the creation of the Reserve Bank, namely that the Reserve Bank should be "the lender in the last resort", should not be lost sight of.

The development of trade bills, the lack of which is responsible both for the rigidity of bank credit and for the unwillingness of the Reserve Bank to grant rediscounting facilities, should be the pre-occupation of the Reserve Bank. The stamp duty on bills should be reduced and public warehouses should be built whose warrants might be utilised as collateral security, thus dispensing with the necessity of handing over the goods to the banker—an act which Indian industrialist considers derogatory. In these and various other ways the conditions of granting short-term credit to industry should be liberalised.

So much has been said above of the provision of short-term financial facilities to industry, for in India the problem of industrial finance has often been regarded as only concerned with the provision of fixed and long-term capital and not equally with that of providing the circulating or revolving credits which industry requires in no less degree.

Indeed in India the latter aspect of the question is even more important than the former, because while perhaps no country has solved successfully the problem of supplying long-term finance to industry, most advanced industrial countries have on the whole successfully evolved a system of providing circulating caiptal to industry on easy terms. India has still to solve this part of the problem.

II.

The other part of the problem arises from the fact that industry requires block capital including therein a part of the permanent working capital needed by it. This must ultimately come from the savings of the public; for obviously if the public would not invest either because of their unwillingness or of their inability, no institution can help in the matter. Banks or other provincial agencies of different kinds can only act as intermediaries for short periods between the stage of planning the business and its ultimate ownership in the hands of the investing public. There is undoubtedly a variety of practice in the methods and machinery of the long-term capital market. In Britain, Scandinavia, and Latin America the banks devote themselves almost entirely to deposit banking, and leave investment or industrial banking to separate specialised institutions. The banks on the continent of Europe—in Germany and more especially in Austria, Hungary, Italy, Belgium, etc.—and in U.S.A. have followed a different policy by which both kinds of banking have been undertaken by the deposit banks, and the system was more the result of certain special circumstances than one of inevitability. That there are shortcomings in the first system and grave dangers in the second was clearly revealed during the recent economic depression. The British System of extreme specialisation of functions led to a lack of knowledge on the part of banks of the needs of industry. British banks were also unwillingly forced to become permanent creditors of large sections of British industry because their funds got tied up in the industry and the "frozen" credits took a long time to become mobile. During this period the banks were compelled to become partners, however unwillingly, in the industry. But his "forced" contact was not felt to be an unmixed evil. It came to be recognised that there was need for close co-operation between industry and finance and that "the most beneficial kind of relationship was one where bankers and financial leaders were able. bv their

not only to supplement the information at the disposal of the industrialists but also to give aid of very great value in all financial problems." This service to the extent to which commercial banks were unable to perform was recommended to be undertaken by a special company specially to be established by the industrialists and bankers in co-operation. In conformity with the above recommendation of the Macmillan Committee, an industrial bank has been established a few years ago. The United Dominions Trust organised a company called Credit for Industry, Ltd. with a large paid-up capital and with resources to be augmented by further capital and debentures. It would grant loans up to £50,000 for periods running from two to twenty years. It will cater particularly to the smaller and medium sized concerns but it will not finance new inventions or acquire existing business units. Other financial institutions are also likely to be established. The gap found to exist in the machinery for financing the long-term needs of British industries has now been sought to be filled up by private institutions formed by bankers acting in collaboration with industrialists.

The continental system of mixed banking carried with it always some lurking dangers. But Germany was able by a careful management of its investments and deposits to avoid the dangers for a long time. The proportion of long-term deposits to total deposits was very high in German banks and so also was the proportion of "own" resources to total deposits. They were careful in effecting a proper distribution of their assets between a considerable number of industries and were anxious to place the industrial securities with the public as quickly as possible and not to hold them in their own hands. Contrary to the common belief, lasting participation in industrial enterprises has not been part of the general policy of German credit banks, although there have been occasions when securities remained with them on account of the difficulty of placing them in the open market. But the post-war period brought about a great change in the situation. The German banks gradually reduced their percentage of industrial securities portfolio, and indeed they were less tied to industry than the British deposit banks. But even to-day there is more intimate co-operation and understanding between German banks and industry than there exists in Great Britain and the essential character of mixed banking system is still preserved. But since the credit banks want to be in a more liquid position than before, they

abstain from locking up their funds in risky enterprises or in ventures where the risks of immobile capital have appeared to them great. They have therefore assisted in the formation of special financing companies in collaboration with industrialists. In other countries in Europe where there was closer association between banking and industry, the dangers of such relationship led on the one hand to similar developments and on the other to legislation restricting the powers of the banks to carry on industrial banking. In France, for example, the deposit banks have established subsidiary companies for long-term industrial finance. In Italy similar influences are seen at work. The mixed banking business of Italian banks is giving place to a division of functions. There has been a tendency to change over from universal banking to deposit banking. Banks have attempted to divest themselves of direct industrial participations. On the amalgamation of Credit Italiano with the Banco Nationale de Credit in 1930, it was decided to restrict the former to short-term deposit banking and to use the latter for long-term industrial financing. Through this device it was possible to secure the advantages to industry of the mixed system "without exposing the depositor to no greater risks than he remains under the English system." In U.S.A. too the large banks of New York, Chicago, etc. have constituted special companies as subsidiary securities companies through which their investment business is transacted. The dangers of mixed banking were clearly seen when the American banking system collapsed in 1933, and adjustments are now being made to reduce the dangers of industrial banking by the deposit banks.

In Belgium where the system of mixed banking had apparently taken firm root, the recent depression has effected a radical change. Apart from voluntary readjustments, legislation has been introduced by Government. By a series of decrees passed in 1934 banks were required to give up their long-term industrial activities and reorganise along deposit banking lines. Existing banks have now given up their industrial banking activities and have split themselves into two distinct concerns with a view to separating their industrial banking and deposit banking activities.

These examples have been cited to show that there is no finality in the banking structure of different countries, that the adaptation of banking to changed industrial structure is desirable and inevitable and that no extreme view regarding the desirability or otherwise of specialisation or

integration of banking functions can hold good for all time. The only permanent factor is the need for an effective machinery to advise the public in regard to industrial securities, to raise the capital from the public in various forms in the manner most convenient to them and to the industry alike, and to be in intimate touch with the needs and difficulties of industry.

By whom and in what manner have these services been done, if at all, in India? Clearly not by the joint-stock banks which have been ineffective even as purveyors of revolving credits. Managing Agents have been performing with varying degrees of efficiency all those services which in other countries are done by banks, issue houses, and financial companies. Unfortunately their services have been available only in respect of some major industries and large-scale business units. Medium sized businesses were not able to find a financial institution which would supply their needs. Again, the association of management and financing which the managing agency system has entailed has given the agents great power which has generally been abused. The cream of industrial profits was taken away by the managing agents leaving to the investor only a very inadequate return. Hence the free flow of capital to industries was generally dammed and dependence on the managing agents for industrial finance became more and more pronounced.

In cases where managing agents did not raise capital from the public, the task was undertaken by individuals of varying degrees of ability and integrity, not always with happy results. These men were lacking in business or financial experience and the capital which they put into the business together with what they were able to raise from the public was so inadequate that within a short time the businesses collapsed. The loss incurred by the public scared away investment even in more profitable enterprise. The investing public in India are left with no guide or adviser to aid them in their industrial investment. On the other hand even sound propositions are unable to command enough capital. There have been several cases in recent years where the promoters of the most promising electric and other companies have failed to raise sufficient capital or to get the capital underwritten by any financial company. Thus there is a definite gap in India in the banking and financial machinery which must be filled so as to enable new businesses to be started and financed smoothly and to get sufficient long-term credit.

In so far as the problem is one of scarcity of industrial capital, time and economic progress can alone solve it. National income must increase and savings must be directed more and more to industry and agriculture. But in respect of the capital available for industry the reform of the Company Law in 1936 will have contributed not a little to inspire confidence in the investor who can now be reasonably certain that he will not be defrauded with impunity. Legislation cannot by itself make people honest, but by punishing dishonesty and fraud can go a long way to check the worst abuses that have crept into industrial management and that have frightened the shy investor.

But the problem of assisting industry at moments when the capital market is unfavourable for the floatation of a public issue and of carrying on the financial burden till the moment is ripe for a public issue still remains. The Indian Central Banking Committee has suggested one important solution. It is that banks in India should carry on mixed banking of the German type and do for Indian industry what German banks have done for German industry. But the more recent trends of industrial finance in the world have revealed the defects of that system. The integrity of the deposit banking system may be jeopardised by any radical departure from the tradition and practice of Indian banks. Nor are all banks in a sufficiently strong position to undertake these increased functions which require financial strength and exceptional qualities of management. Hence the only institutions that can attempt this experiment are the Imperial Bank and one or two other banks. By cultivating a more sympathetic attitude towards industry, by greater contact with it and by advancing funds temporarily or by taking up debentures, as the German banks do until they are ready for issue to the public, they can do a great deal to help industry in raising permanent capital. The present system by which industry depends so largely on managing agents directly or indirectly and on deposits from the public which are liable to recall at any moment should be altered.

Indian opinion has often expressed itself overwhelmingly in favour of the establishment of an Industrial Bank with Government assistance. It is too late in the day to argue that Governments should have nothing to do with industrial banking or that it should not afford financial aid to competitive industry. But the establishment of a State-owned or State-aided industrial bank may not only fail to solve the problem but may affect harmfully indus-

trial development. This is because these institutions unless organised by industrialists or by bankers or by both in collaboration will be seriously deficient in banking, and industrial experience and investments are likely to be so unprofitable that the banks may become bankrupt. The moral and psychological effects of the failure of state-owned and state-aided institutions are likely to be so serious that we should hesitate before recommending such a course.

Further, so far as large-scale competitive industries are concerned they do not suffer from lack of industrial capital. During the recent depression a case could have been made out for rendering them financial assistance to enable them to carry on their schemes of reorganisation and rationalisation. In normal times there is not the same need for financial aid from Government. So far as long-term capital and capital for extension are concerned India should voluntarily organise, as other countries have done, special financial companies which will serve those purposes. Government might afford assistance by agreeing to take up some debentures. The initiative must come from the banks and industrialists and Government might co-operate in making their efforts a success.

The case is, however, different when we come to the role of the State in the financing of certain industries which Govrnments for some reason or other have to promote and manage. All public utility industries, basic chemical and engineering industries, certain other industries which are essential from the point of view of defence should be publicly owned and managed. For the financing of such concerns an institution organised by Government is absolutely necessary. The question whether such a financial corporation should be an All-India one or provincial one has to be decided in the light of all circumstances. Industries on national scale must have an all India financing agency. But considering the vastness of the country and its political structure provincial institutions will be more suitable. They should raise a large initial capital from the public on the guarantee of a small rate of dividend and must depend on debentures and the rest of their resources. On their boards must be appointed a few able merchants and industrialists who would be able to supply a variety of experience.

To these financial corporations must also be entrusted the task of financing the needs of small and medium sized industries. A special section must be attached thereto which will be concerned with the requirements of the

smaller local industries. Experience of the working of the State Aid to Industries Act has brought to light one of the serious shortcomings in its working. It is the lack of a competent body to assess the credit-worthiness of the applicants for assistance. The proposed financial corporation in the province may be expected to have better knowledge and experience than the present Advisory Board to the Director of Industries and will apply sound tests to applications for financial aid.

The problems of cottage industries belong to an altogether different class. More even than from financial handicaps they suffer from lack of knowledge, experienced management and from deficient marketing. A combined marketing and financial organisation established by Government and managed by an expert body of co-operators, businessmen and some Government nominees will alone solve their difficulties. State assistance to these cottage industries stands on a different footing and is fully justified considering their great social and economic potentialities.

A NOTE ON INDUSTRIAL FINANCE

By

Dr. P. S. Lokanathan, D.Sc.

Some General Considerations.—The problem of industrial finance cannot be dissociated from that of organisation and management. Not even the most efficient banking and financial organisation can help industrialist whose estimates of his financial requirements are faulty and who starts his enterprise on an utterly inadequate financing plan. Under-capitalisation has been the bane of many an industrial concern in India.

Permanent capital required by an indistrial concern should include provision for "block" expenditure as well as for a portion of working capital which represents the normal working capital. No financial plan can be considered to be satisfactory which fails to provide in the form of shares and other long-term funds for the above requirements.

There is need for reducing the cost of the circulating capital required by industry. The high rate of interest charged on loans to medium sized industries should be reduced and this can be done only by the development of commercial banking. The methods of granting credit by banks which are now rigid should also be improved. Indigenous banking system should be modernised and brought within the ambit of the organised money market of the country.

The costliness of finance has been due partly to the lack of banking deposits and partly to the alternative methods open to investors who were able to find employment for their funds in money-lending at high rates for consumption purposes. The regulation of moneylending and the fixing of the rates of interest on loans to agriculturists which has been attempted in several provinces will have the effect of cheapening credit to industry. Savings are likely henceforth to take the form of banking deposits and despite the opinion held by some that the country does not abound "in untapped banking facilities", a notable increase in banking deposits is sure to come about and recent developments confirm this view.

The improvement in the machinery for short-term credit to industries is an essential part of the problem of industrial finance and serious attention should be given to this aspect of the problem.

Board of National Investment.—The ultimate source of supply of the long-term capital required by every industry is the savings of the public and every financial institution or agency can only be an intermediary between the industry and the public. So far as the whole country is concerned the question whether annual savings available for industry are adequate or will have to be supplemented by import of capital will have to be considered. In this connection some relevant data are supplied separately.

The Government of India and in recent years Provincial Governments have been rivals to competitive industry in the sphere of industrial finance. They have been borrowing from the public for the capital requirements of the industries in their charge, e.g. railways, electric works, irrigation, etc. While they have not unduly raised the level of interest rates on their loans and therefore cannot be said to have affected private industry adversely, the time and manner of their raising loans can be improved upon. To ensure proper consideration of every aspect of the matter and to improve the machinery for raising capital both at home and abroad, some organisation is required like the Board of National Investment which should work as a Department of the Reserve Bank of India or in full consultation with it. It should be the duty of the Board to make an estimate of the capital requirements of all public utilities and of governments for other purposes, prepare the financial plans suitably with a view to appealing to different kinds of investors, choose the time, place and manner of raising capital and arrange for distributing it.

Agencies of Industrial Finance.—The question of the proper agencies to supply long-term credit can only be decided in the light of the nature of the industries for which finance is required. The following classification may be found useful:

(1) Nationalised industries and public utility industries.

(2) Industries in the development of which on account

be interested but which will remain in private hands. As examples may be cited some of the industries given on page 9 of the Red Book of the National Planning Committee under the heading "Large-scale industries".

(3) Other major industries on private capitalist lines.
(4) Minor industries.
(5) Cottage industries.

In regard to (1), an All-India Industrial Corporation with Provincial Boards should be constituted with a large paid-up capital and with power to float debentures guaranteed by Government. When the All-India institution is constituted, Governments should entrust the entire financing of all their public utility concerns to this body and should be able to surrender their present responsibility for financing them.

For (2) the best solution will be the starting of one Industrial Bank for the whole of India with branches in provinces and States by the leading bankers and industrialists acting in co-operation. Such a bank whose shares are held by most of the important industrialists and the leading joint-stock banks and which has on its Board bankers and industrialists will have a variety of experience. Government should try their best to help in the establishment of such a bank, and a portion of its debentures may be given a guarantee of interest for a limited period of time. The Bank itself should be a private body which would take full responsibility for all its work and functions and the only control which Government should exercise over it is by having the power to nominate one person on its Central and Provincial Boards.

The capital requirements of (3) and (4) may be expected to be fulfilled by the above institution with its branches and local boards. To ensure however that minor industries are not neglected, each Provincial Government may go so far as to guarantee the bank against any loss that it may incur in financing minor industries whose capital requirements are below Rs. 1 lakh. At present in most of the Provinces the State Aid to Industries Act is in force which empowers the Department of Industries to grant loans to small-scale industries besides cottage industries. But experience of its working has clearly revealed both the futility and the dangers of such a procedure. On the one hand several industries which have no title to credit and lack the essential conditions of success have been enabled

to get credit with the result that Government have been put to considerable loss and on the other, Department of Industries itself has not the necessary technical and business knowledge to assess the credit worthiness of applicants with the result that some deserving cases have been unable to get credit. It is therefore of the utmost importance that any help to be rendered by Government should only be through the medium of the bank.

The case of cottage industries stands entirely on different ground. It is not merely a question of financial assistance but of providing employment to large classes of artisans. Government intervention to assist artisans and others in the promotion of cottage industries is fully justified. A combined promoting financial and marketing Board should be established in each province which should assist in the formation of new cottage industries, finance them and market the goods.

My view is that Government should be directly responsible for the provision of industrial finance only in the case of two sets of industries—all nationalised industries and public utilities on the one hand and cottage industries on the other. In the case of certain basic industries which are of national importance but which Government is not for any reason willing to nationalise, Government should be content with letting some financial agency interest itself in their financial provision. There is no justification for Government to incur losses in financing competitive industries which would only go to enrich the pockets of the private capitalists.

SUPPLEMENTARY NOTE ON SOME ASPECTS OF INDUSTRIAL FINANCE

By

Dr. P. S. Lokanathan, D.Sc.

In view of the length of my first note, it will perhaps be convenient if I summarise briefly the main arguments of my memorandum with a few comments.

A

1. Finance is by no means the most important factor which has restricted the share of the Indians in the industrial development of the country. Equally important has been the lack of technical knowledge and business experience.

2. State Aid to Industries Act in many provinces has not been successful because the number of concerns that deserve credit is really small. In certain other instances the failure is due to the lack of an organisation to assess the creditworthiness of the applicants for aid. Hence it is desirable that the actual loaning of funds be made by a recognised bank with whom Government may place certain definite sums for the purpose.

3. The supply of circulating capital at cheap rates of interest is the most important problem so far as medium and small scale industries are concerned. A part of the working capital should be raised by the business as permanent capital, and the truly revolving credits must be made available cheaply. The commercial banks should take a more active part in the financing of the short-term needs of industry, and there should be greater understanding between the banks and industries in the country.

B

As regards long-term capital, the problem should be broken up into parts with a view to its proper understanding. There is first of all the question of the supply of initial capital which ultimately should be raised from the public in the form of ordinary and preference shares. But between the stage of promoting of the business and its ultimate ownership in the hands of the investing public there is a

definite time lag and some machinery is needed to fill the gap.

Two methods are open either alternatively or in combination. (1) Some of the bigger joint-stock banks may adapt themselves to undertake the mixed banking characteristic of Germany and other continental countries. There is a risk in this, but the major banks may undertake the task without serious danger. (2) A special institution may be established by the banks themselves as a subsidiary on which industrial interests too may be represented. Neither of these methods requires any State assistance.

There is next the problem of long-term capital for development, extension and also occasionally during periods of relative adversity. It is here that the role of the State can be employed with advantage to the country. There are no financial institutions at present which can give to industry the long-term credit it requires.

The experience of other countries is of great value here. The Industrial Bank of Japan started with a large government subsidy is an instance of a bank which has played a large part in the importation of foreign capital, in securing the industrial development of the country, in developing shipping and in financing medium sized and even small scale industries. But the most outstanding development in recent years is the formation of what are known as **industrial mortgage banks** granting long-term amortisation loans against industrial property like factories, plant, etc. What land mortgage banks do for agriculture, industrial mortgage banks do for industry. The Industrial Mortgage Bank of Finland, the Industrial Mortgage Institute of Hungary, the Provincial Mortgage Bank of Saxony and the National Economic Bank of Poland are instances in point. While all of them receive a guarantee on their debenture bonds, some are private joint stock banks while others are entirely owned or partially owned by the State. In other words the whole or major portion of the share capital is owned by the State. These industrial mortgage banks have a reasonable measure of success and have done useful service in financing the long term requirements of a number of large and medium sized industries by granting them loans against their properties in the form of buildings, plant and machinery.

A case can be made out for the establishment of a simi-

Associations. The debenture bonds should be issued by the Central Institute while the actual loans will be disbursed by the Provincial Associations against mortgages of industrial property. Government may subscribe for a certain portion of the share capital; but the bonds must be the most important source of funds which should be provided by the public with a definite government guarantee to start with. Whether Government should take the initiative in establishing this All-India Industrial Mortgage Bank or wait for the initiative to come from bankers and industrialists is a matter which requires further consideration. The function of such mortgage banks will not be to underwrite the shares but only to give mortgage credit.

C

All the above considerations apply to private competitive industry. But the financing of defence industries, key industries and public utilities should be the special concern of the State, as those industries are of national importance and form part of an all-round economic development. An institution on all-India basis for the financing of defence and key industries should be started with share capital entirely provided by the State and with power to issue debentures on a definite guarantee of interest. Its function will be to promote, under-write and finance such industries. The usual arguments against State aid cannot apply in such cases, for here the industries are State owned and State controlled, and they should be so.

So far as public utilities of a provincial character are concerned, they may be financed by Provincial Industrial Corporations established by provincial Governments. At present these governments place some capital funds at their disposal, and although run apparently as commercial concerns, they are too much influenced by bureaucratic methods of administration and financial control. It would be necessary to have a separate financial agency for the financing of all public utilities and any other industries which provinces consider to be of national importance.

D

As already pointed out, all funds under the State Aid to Industries Act must be placed with a recognised joint-stock bank which could actually disburse them to the applicants. Or in the alternative, Government may agree to re-

imburse the banks of any loss they were put to by assisting the industries under the State Aid to Industries Act. In the absence of any arrangement as above indicated, the financial corporation established by provincial governments may be entrusted with the task of financing the needs of all small and medium sized industries under the Act.

E

So far as cottage industries are concerned, a combined marketing and financial organisation should be established by Government in every province and on its Board should be appointed co-operators, businessmen and Government nominees to manage the institution.

INDUSTRIAL FINANCE & COTTAGE INDUSTRIES

By

A. Mohiuddin

The Indian Central Banking Enquiry Committee have, in their report, described the method of financing the rural industries. From the point of view of finance the artisans can be divided as follows:—

(1) Independent artisans.
(2) Kharkhanadars.
(3) Dependent artisans.

Independent artisans buy the raw-material on cash basis and sell the product in the market at the best price available. They devote part of the week or the month in producing the articles with the help of their family members and one or two employees and spend the rest of the week of the month in selling their wares. They may, if necessary, borrow funds at 12 to 18 per cent. They are hampered by lack of finance both for appliances and for raw-material. They generally suspend their manufacturing operations for about 10 days in a month to sell their products and to recoup the working capital for further purchases of raw-material. Lack of finance and marketing arrangement reduces their productive capacity.

(2) The Kharkhanadars have either got a shed of their own where the workers come and execute the work or they distribute the raw-material to the workers to be worked up into finished products at their homes. Generally the wage paid to these workers is very small, but the important factor is that there is some kind of security of income for the artisans. The Kharkhanadars generally possess a small capital of their own and may borrow money at a heavy rate of interest varying between 12 to 18 per cent.

(3) The largest number of artisans are in the group (3) given above. They purchase raw-material from Sowcar on payment of a price much higher than the bazar rate. In some cases, they are allowed to sell the product in the bazar and pay back the amount to the Sowcar but in most cases the Sowcar has a lieu on the finished product and purchases it at a price lower than it could fetch in

the open market. This class of artisan suffers both ways by paying higher price for the raw-material and obtaining lower price for the finished product. The rate of interest on his loans works out to about 18 to 30 per cent.

The Sowcar has complete hold on the artisan on account of two very important factors which cannot be overlooked in any scheme of reform. (1) He gives them advances not only for raw-material but also for household expenses, marriage, etc. The artisan can always fall back upon the local Sowcar for help in time of need. It may be very costly help, but it is there nevertheless. (2) He supplies raw-material and takes back the finished product more or less regularly giving some kind of semi-permanent employment to the artisans. The traditional dependence on the Sowcar has sapped the enterprise from the artisan.

Co-operative Societies of artisans were established all over India but most of them failed. The problem of financing of cottage industries is not only a question of providing funds but also of providing appliances and of marketing. Any organisation which aims at only providing funds to artisans is sure to fail unless it creates a wide spread organisation for marketing of the product. The question of financing of cottage industries therefore consists of two important factors that is to say, (1) finance and (2) marketing organisation. The Government of India had recently allotted a certain amount of money for organisation of handloom industry. As the conditions of the industry vary somewhat in different provinces, each province was given free hand by the Government of India to tackle the problem facing the handloom weavers. In Madras a Provincial Marketing Society is established to which primary societies of handloom weavers are affiliated. Sales Depots have been established at a number of important centres. The Central Society arranges the supply of raw-material, e.g. yarn direct from the mill to the primary societies on its own guarantee. The Sales Depots purchase the cloth manufactured. The primary societies are subsidised and a staff has been appointed to supervise the work.

In the Bombay Presidency, the marketing scheme for handloom products, comprises the organisation of district industrial co-operative associations with the following aims and objects:—namely

(i) to supply improved appliances on a hire purchase system or otherwise;

(iii) to advise weavers with regard to the production of improved and easily marketable patterns and designs;

(iv) to accept on consignment account against partial payment, handloom products from weavers and to purchase outright handloom products and to sell them; and

(v) to undertake preparatory and finishing processes and dyeing and printing in connection with handloom industry.

Similar schemes with slight variations have been in operation in other provinces. The aim is to free the artisan from the middlemen. But in order to free him from the middlemen, it is necessary to organise the whole industry from the beginning to the end and from the stage of purchasing appliances and raw materials to the sale of the products.

Another important factor is that the organisation has to begin from the top rather than from the bottom, i.e., the Central Organisation for the sale of products and supply of raw-material has to be established first. Generally the organisation is extended downwards in the hope that the primary societies of weavers will be organised at a later stage. The Primary Societies can be successfully established only when the members have gained confidence in the Central Sales and Supply Organisation. The weavers have to be shown that they can dispense with the hereditary middle-man without any danger of being left in suspense.

In order to rehabilitate cottage industries, the Governments concerned have to take initiative and spend a large amount of money in the beginning to establish proper organisation on the lines indicated above. It is not expected that all the artisans will come within the proposed organisation. A successful organisation is, however expected to benefit indirectly even those artisans who do not come within its scope.

The Committee may also consider the possibilities of encouraging the establishment of small karkhanas on co-operative or profit sharing basis.

NOTE BY MR. S. C. MAJUMDAR

With reference to the minutes of the proceedings of the last meeting of the Sub-Committee held on the 19th August 1940, particularly with regard to the informal discussions and the record thereof regarding the minutes of dissent I had submitted on the 20th July 1940, I have to inform you that I have had a discussion with the Chairman of the National Planning Committee and have decided to offer the following explanations and modifications in that regard. It may be noted that in the minutes of the proceedings of the Sub-Committee certain items in which inaccurate and unsubstantiated statements are stated to have been made, have not been specifically recorded. My explanations herein are in respect of those items which had been informally discussed.

In offering the following modifications and explanations I must, however, mention here that the trend of criticism of my note may be divided into two distinct parts—viz: (1) those relating to facts and (2) those relating to opinion.

With regard to the first, i.e., facts—I would have no hesitation in modifying my statements in the light of correct facts if and when they are brought to my notice. With regard, however, to the statements in my note expressing opinions, they are my own and as such I am fully entitled to shoulder the responsibility for those, though they may not necessarily be the opinion of the Committee. It is in this light that I have decided to offer the following explanation and modifications.

I may be permitted to mention that the whole trend of the draft interim report of the Sub-Committee, to my mind, differed very much from the fundamental outlook of a planned national economic policy. I must, however, mention in this connection that Mr. J. R. D. Tata had taken exceptions to some of the expressions in my note of the 20th July 1940, in a light as if my note was directed against any particular interests or individuals. I have been specially requested by the Chairman of the National Planning Committee, Pandit Jawaharlal Nehru to assure Mr. Tata that the opinions expressed in my note were not directed towards any individual institution or organisa-

tion. It is an expression of opinion with fundamental difference in outlook and policy for the development of a national planned economy. I am also very glad to record here that though my point of view and that of Mr. Tata differed considerably in outlook, I have found in the course of discussions in the Sub-Committee that Mr. Tata was anxious for a happy compromise on the fundamental issues in regard to the Sub-Committee's work without very much sacrificing the principles for which each one of us stood.

These amended notes are recorded in order of my note of the 20th July, 1940.

Para 2. State Ownership & Control.—With regard to the State ownership and control, my attention was drawn by the Chairman of the National Planning Committee to the Resolutions adopted by the National Planning Committee vide page 74 paras 12-13 as well as page 81—para 18 of the Red Book No. 1 in which certain guiding principles have been definitely laid down with regard to the State ownership and State control. I quote hereunder the relevant portions from the Red Book No. 1.

Page 74.

"12. The Congress has laid down in its Karachi resolution on fundamental Rights that the State shall own or control key industries and services, mineral resources, railways, waterways, shipping and other means of public transport. This general indication of Congress policy is of vital importance and applies not only to public utilities but to large-scale industries and enterprises which are likely to be monopolistic in character. A legitimate extension of this principle would be to apply it to all large scale enterprises. It is clear that our Plan must proceed on this basis and even if the State does not own such enterprises it must regulate and control them in the public interest.

"13. It may be impracticable to insist on State management of existing industries in which vested interests have already taken root. But wherever even an established industry, under private control, receives aid or protection from the State, or tends to develop into a monopoly, or comes into conflict with the general policy of the State in regard to workers or consumers, the State should take

necessary steps to assure conformity in all such ventures with its basic policy and with the objective laid down in the Plan."

Page 81.

"18. Defence industries should be owned and controlled by the State: Public Utilities could be owned or controlled by the State but there is a strong body of opinion which is in favour of the State always owning Public Utilities. Other Key industries should be owned or controlled by the State." This Sub-Committee's work is, therefore, expected to be carried out in the spirit of those resolutions of the National Planning Committee as far as practicable.

2 **(A) Defence Industry.**—With regard to this item there is some misconception about the term "defence industry". Defence Industry as such must necessarily be entirely State-owned and State-controlled and is, as a matter of fact, State-owned and State-controlled in all countries. 'Defence' is a function of a Government and as such it cannot be in any way private-owned and controlled. Distinction, however, must be made with regard to the armament industry i.e., manufacture of arms and ammunitions, which is often confused with defence industry. The armament industry is not universally State-owned as stated in my note of the 20th July last. During peace time no doubt, private-owned factories work side by side with Government owned arsenal and ammunitions factories in countries like England, U.S.A., and others. But these private-owned arms and ammunitions factories are also either subsidised by the State or a considerable amount of share capital held by the State and they are in every instance now-a-days closely controlled by the State. The position, however, becomes entirely different during war time and a majority of the arms and ammunitions factories are so controlled by the State to-day that they have lost all character of private industry excepting to the extent of capital contributions. Save and except in this regard there is no inaccuracy to my mind as to facts in my note of the 20th July 1940. So far as the Planning Committee goes, there is no doubt about defence industries in this sense being State-owned and State-controlled.

2 **(B) Key Industries.**—As mentioned above, in the resolutions adopted by the National Planning Committee

Key Industries. Relevant portion from Red Book No. 1 is quoted below:

Page 81—Para 18.

"Defence industries should be owned and controlled by the State: Public Utilities could be owned or controlled by the State but there is a strong body of opinion which is in favour of the State always owning Public Utilities. Other Key industries should be owned or controlled by the State."

This Sub-Committee's work is expected to be carried out in the spirit of the resolutions of the National Planning Committee.

3 (C) Public Utilities.—In this matter also the principle has already been laid down by the National Planning Committee vide Page 81 Para 18 quoted above. The only part which evoked criticisms to the effect that unsubstantiated statements have been made in my note is the portion dealing with the report of the Special Officer appointed by the Government of Bombay in 1938 regarding the electrical undertakings in this Presidency. Unfortunately this report has not been made public by the Government of Bombay and so it is not possible to produce this report for substantiating my remarks, though I am fully convinced from the perusal of the report of the inefficient management of electrical undertakings in this Province. When I say that these electrical undertakings are inefficiently managed, I do not want to convey thereby that they are incapable of giving good dividends to the shareholders. But I am pointing out the excessive cost of production, excessive cost of management as compared to the cost of similar industries in other countries. There are also several undesirable practices with regard to floatation, capital compositions, the store purchase policy, and generally speaking the non-national outlook of a large section of these electrical undertakings. I hope, therefore, that this explanation of mine in regard to these remarks would be acceptable.

With regard to the last few sentences of the same paragraph on page 3, I am sorry to say that Mr. Tata had taken strong exceptions to the statement that "Private individuals for private gains have shown absolute lack of public morality and public good", I can, however, assure Mr. Tata that I had absolutely no intention of wounding either his feelings or of the number of industrial captains

both in this country as well as in other countries to whom the statement may be thought to refer. I shall be more explicit in this regard. I do not for a moment doubt the commercial honesty of a good number of the industrialists and their sense of public good in contributing liberally to the benevolent institutions in their countries. But the present day capitalistic system in this, as well as in other countries, has in its roots the evils which lead to public corruption and bribery to meet successfully the competition of industrial organisations. It is an open secret that such competitive industrial houses in their anxiety for economic power try to capture the political machinery and thus control the economic life of the nation. This vesting of economic power into few hands may not ultimately be for the general good of the public. It is said that in America to-day "finance capital" is in the hands of a handful of families and their satellites who control the economic destiny of America and in my opinion such a state of affairs is not in the least in the 'public good'. Similar is the case in France where few families have controlled the economic life of the nation with disastrous consequences both economically and politically. Moreover, the attitude of such big private Industrial Trusts towards labour problems and the problems of fair price to consumers etc., are anything but in the public interest. However, in view of the possibility of misunderstanding arising in this regard, I have no objection to delete the words "public morality" from my original note. I am, however, definitely of opinion that the present private capitalistic control of industries is incapable of contributing to 'public good' in any way.

With regard to the next statement regarding the success of business administration by Public Servants, I may state that, in some cases, the public servants have been as much corrupt as those capitalists business heads who are concerned with the administration of big industrial concerns. But such cases of corruption amongst public servants are but few compared with those of private individuals in business. I maintain that in the present day order of the industrial organisation and management in India where few businessmen and industrial magnates have acquired liberal general education, and where they are selected not because of their education and capacity but because they belong to the families of the Managing Agents and relations mostly, it is very much desirable that gradually the executive management of industries should be

left to a specially trained class of Public Servants. At least the entire system of recruitment of the executive heads of business administration in this country should be changed. It was Prof. Gregory, Economic Adviser to the Government of India, who some time back had pointed out in a lecture before the Delhi University that the greatest economic evil in India to-day is the extreme selfishness of the monied class, which selfishness is much more apparent here, when compared to the monied classes in other countries. The outlook, therefore, of the industrial and commercial class of this country has to be changed considerably towards the general good of the community. The chief motive of our industrial organisations in this country henceforward should be not to make as much money for the shareholders or the capitalists, but in the common general good of the country at large. This I believe is also the aim of the National Planning Committee.

Para 4—page 3.—With regard to the working of the State Aid to Industries Act, the application of such State aid was entirely faulty in various ways and as mentioned in my note a very thorough and searching examination should have been made by our Sub-Committee about the operations of the State Aid to Industries Act.

Para 7—page 4.—The Chairman of our Sub-Committee in Para 7, viz: "A vast portion of the investors want high has taken exception to the last portion of the statement grade securities with fixed interest earnings and not speculative counters, though it may give slightly higher yield, unless they are misled by the so-called financial experts." I am sorry I cannot at all agree with the views expressed by the Chairman of the Sub-Committee at the last Sub-Committee meeting that a large number of people want ordinary shares, as against fixed interest earning investments. He also enumerated the example of the recent issue of shares of the Tata Chemicals where the applications for Ordinary Shares were far in excess of other class of issues. But I may refer him to the various publications about the total investments of a country in any year, where we may find that of the total investments in a country every year a very large percentage goes to the fixed interest earning securities. The number of such investors are also much larger than those who seek investments in ordinary shares. This is true even of the Investment Houses like Banks, Insurance Companies, Savings Bank Institutions and others. I definitely maintain that it is only a very handful of people who would like to invest

their savings in speculative securities like the ordinary shares of companies.

Para 12—page 5—Managing Agency.—With regard to the Managing Agency System, the Interim Report of the Sub-Committee had been drafted in a way to indicate that the Managing Agency System did perform some useful function in building up the industries. I entirely disagree in this regard from the Interim Report. I maintain that industries would have been started as they have been done in other countries out of the necessity of capital growth itself even though the institution of Managing Agency had not been there. There are two main functions which the Managing Agents of Industrial Concerns are expected to perform; (1) Promotion of Companies; (2) Financing of Companies. With regard to (1), no doubt the promoter of companies performs a role of some importance as a middleman by getting together the facts, figures and other relevant data as well as new discoveries and inventions in the promotion of an industrial concern. As such he needs be remunerated. The question is how and to what extent? In my opinion such promoters should be paid as they are paid in other countries for the same function performed. (2) If the promoter does the function of a finance broker or guarantees finance he should also be given remuneration for his functioning as a finance broker or financier to the extent he performs this function as an underwriter of issue of securities. It is, however, no use lamenting over the past. The defects in the Managing Agency System are too glaring which the Chairman of our Sub-Committee himself knows very well. If a survey is made of the activities of the Managing Agents for the past years, one is likely to come across greater number of dishonest and inefficient Managing Agents than honest and efficient ones. When such is the case, the system requires to be uprooted in the general good of the industrial development itself. A reference to the published Balance Sheets of the Hukumchand Jute Mills for the half year ended in 30th September 1939 and of the Hukumchand Steel Co., Ltd., will show glaring instances of misdeeds of the Managing Agents class which is already black. This system which eats away the vitality of our industrial organisations must be scrapped without any sympathy whatsoever forthwith.

I may be permitted to say in this connection that the record of the British Managing Agents Class in India has been in certain respects more clean than the Indian Managing Agents class. This is partly because the character of administration of industrial houses controlled by the British Managing Agents in India, gives more scope for infusion of new blood. In the case of Indian Managing Agents, however, the character and type of the Managing Agents have for generations remained practically unchanged.

The amount of capital lost and wasted by the Managers of industries in this country on account of inefficient and inexperienced management is enormous, and far outweighs the success that has been attained in the industrial progress in this country. Whatever success we have attained in the field of industrial development uptil now is, in my opinion, to a great extent due to protection and tariff walls and not because of any special aptitude shown by the Managers of our industries.

It is the common practice of large organisations to keep a record of the service rendered by individuals in their services. In the same way it would be quite in public interest to maintain a register of the record of the services of the Managing Agents class. A research in this direction will reveal the awful tale of the industrial management in this country and the waste of national wealth by the present administrators of industrial ventures. In order, however, to be fair to the Managing Agents class, I propose that a special investigation should be undertaken about the working of the Managing Agency System. A specially qualified person may be asked for by this Sub-Committee from the National Planning Committee to investigate into the comparative efficiency or inefficiency of the industrial management in this country vis-a-vis other countries, the cost of such management, and the part the Managing Agents have played in this direction.

These, therefore, are my explanatory opinions with regard to the minutes of dissent of the 20th July 1940 and discussion thereon.

I am sending two separate notes—on the question of capital supply for planned industrialisation in countries like (i) Russia, (ii) Japan and (iii) Germany who had adopted planned economic organisation of industries in re-

cent years; and the other giving an approximate estimate of the total available capital in this country.

Details concerning money raised and spent by various classes of issue.

(£'s. 000's omitted)

Items	Ordinary	Preference	Debentures	Total
1931				
Overseas Government and Municipal	....	....	32,072	32,072
Overseas Railways	....	....	2,850	2,850
Other Overseas	....	....	4,000	4,000
Home Government	....	....	....	....
Home Municipalities.. ..	....	....	7,177	7,177
Home Production	109	165	7,314	7,588
Home Patents & Fads ..	....	....	....	....
Home Distribution ..	4,907	5,235	1,291	11,433
Home Investment Trusts etc.	....	402	2,712	3,114
1932				
Overseas Government and Municipal	....	....	30,242	30,242
Overseas Railways	....	....	....	....
Other Overseas	....	....	....	....
Home Government	....	....	292,500	292,500
Home Municipalities.. ..	....	....	6,678	6,678
Home Production	917	10,160	26,602	37,679
Home Patents & Fads ..	50	....	....	50
Home Distribution ..	152	1,045	11,133	12,330
Home Investment Trusts etc.	250	....	3,080	3,330
1933				
Overseas Government and Municipal	....	....	153,151	153,151
Overseas Railways	....	....	....	....
Other Overseas	3,698	150	5,527	9,375
Home Government	....	....	141,000	141,000
Home Municipalities.. ..	....	....	19,135	19,135
Home Production	3,798	12,904	41,133	57,835
Home Patents & Fads ..	100	438	....	538
Home Distribution ..	1,102	1,538	4,595	7,235
Home Investment Trusts etc.	1,591	2,265	11,239	15,095

NOTE ON "ATTRACTION OF FOREIGN CAPITAL"

by

S. C. Majumdar

The National Planning Committee envisages industrialisation of India on a very large scale within the next few years on a planned basis so as to improve the standard of living of the masses by at least two-fold in the course of the next few years. Setting up of industrial machinery to achieve this end will no doubt require a great deal of fresh capital supply for industrial development. It has devolved upon the Industrial Finance Sub-Committee of the National Planning Committee to find out the present position of industrial finance in the country and also to find out whether foreign capital should be allowed in its present form to exploit the resources of the country. This is a question which naturally arises in view of India's self-determination to control not only her political machinery, but also the economic machinery so as to bring the greatest advantages of the economic organisation to the sons of the soil and not allow such economic advantages to foreigners in any form.

Economic and Political aspects of Foreign Capital.

The attraction of foreign capital, therefore, assumes not only an economic role, but also a political role of great importance. Origin of such foreign capital investments may be found in the development of Colonial System of Government which was pushed with energy in the beginning of the early nineteenth century by countries like England, France etc. This, therefore, was the history of entry of foreign capital in India. The Britishers were anxious to develop plantations, ports, railways and agricultural industries for the raw materials for their industries and hence they began to invest large sums of money on their account in various public bodies and commercial—investments. The use of external capital may be divided into (a) Government Borrowings; (b) Local Bodies Borrowings, (c) Commercial Capital including specific borrowings for Railways etc.

Apart from the question of a mere investment problem External Capital raises other problems too. It is no doubt

Import of Foreign Capital has effect on Exchange and Currency.

an indirect form of "Import" into the country (Invisible Import) and has a great effect on the trade, exchange and currency of a country. Very large borrowings in foreign markets upset exchange, annual interest and dividend payments and ordinary trade exchange calculations. This has a great effect indirectly on the monetary policy and on trade.

Estimates of India's foreign obligations.

An approximate estimate of foreign investments in India made today is about Rs. 1,000 crores on account of Government and Public Bodies such as Port Trusts, Railways, Municipalities and about Rs. 600 crores on account of commercial investments.

Economic development of various countries with foreign capital.

Ordinarily speaking such foreign capital would not be objectionable as most of the countries before the war resorted to foreign borrowings where capital was cheaper for the quicker development of their industries. Even very important countries like U.S.A., Japan, used to borrow large sums till before the last war for industrial development in these countries. Countries like China, South America, Mexico and all the countries in Africa, India and most of the near Eastern and Far Eastern States have been developed with foreign capital and are still doing so. British Dominions of very huge dimensions like Canada, Australia, New Zeland are no exception to this rule.

Political aspect of foreign capital.

Such foreign borrowings by most of the countries created vested interests and led to political and economic pressure of the third degree on such countries by the lending countries. It is said that today China is ruled by British, American, Japanese capitalists and today's fight between China and Japan is really a fight between Japan and other Western Powers of vested interests who control the economic life of the country through huge foreign investments. In the case of U.S.A., and Japan and such other Sovereign States as well as self-governing Dominions with full national and fiscal autonomy rights, such foreign capital has, however, different significance where it is not possible for the lending countries to exercise any political right or pressure. Here in India whenever the question of political advancement was raised, it is these foreign vested interests who have raised the loudest voice against such advance-

ments for fear of losing the backdoor methods of their activities in this country and have asked for all sorts of protections and commercial safeguards in the new constitution.

External Capital Committee's Report

The various aspects of the foreign capital in India has had the attention of Indian public from time to time. The first time it came into prominence was at the time of the External Capital Committee which issued its report in the year 1925. The External Capital Committee was presided over by late Sir Basil Blackett and quite an illustrious group of people, both from the Government of India as well as from the Indian public were the members of the Committee, some of them being Mr. T. C. Goswami, Sir Charles Innes (the then Commerce Member), Sir P. S. Sivaswami Iyer, Sir W. Currie, Pandit Madan Mohan Malaviya, Sir Dwarkanath Mitter, and Hon'ble Mr. G. A. Natesan. Mr. J. B. Taylor (now Sir and Governor—Reserve Bank of India) was the Secretary.

The recommendations of this Committee favoured to a great degree the development of industries by Indian capital in preference to foreign capital. It was also later on more or less agreed by the Government of India that as far as the foreign companies operating in India with foreign capital were concerned they must conform to certain regulations regarding its management and capital subscriptions although the Indian Members of the Committee insisted that the majority of the capital should be Indian and at least 75% of the Directorate should be Indian.

"Giant and the Dwarf."

All such resolutions of the Government of India in the interests of the nationals which should have formed the primary consideration in giving any concessions to foreign capital have hardly been observed in practice. It is only well known how foreign companies under Indian names have been getting all sorts of concessions in this country, both from the Government as well as from various Indian States to the detriment of our national industries. Public attention had recently been drawn to a series of such incorporated companies in India, particularly the Imperial Chemicals, Liver Bros. (India) Ltd., Bata Shoe (India) Ltd., and hundreds of such other concerns. This problem of foreign companies operating under false Indian names have become so damaging to Indian Industries that it was referred to by a writer in the 'Harijan' as the "The Menace of" (India) Ltd. So much so that the Congress Working Committee had to pass

a resolution in 1938 pointing out as to what should be considered as foreign company for the purpose of support by the Indians. The Working Committee of the Congress also said in this regard as follows: "The Working Committee have no objection to the use of foreign capital or to the employment of foreign talent when such are not available in India or when India needs them, but on condition that such capital and such talent are under the control, direction and management of Indians and are used in the interests of India". The famous article of Mahatma Gandhi reproduced recently in the "Harijan" entitled "The Giant and the Dwarf" gave pointed reference to such an important problem as the attraction of foreign capital. The views expressed by Mahatma Gandhi from all points of view echo the sentiment of every self-respecting Indian in this regard.

In the matter of interests and returns on the foreign capital also India has paid very dearly. The profits of such foreign Corporations in the past have been enormous. In addition to such enormous returns on foreign capital, India has also had to pay a very heavy price for the services of the foreigners in these foreign capitalised corporations. Even after 150 years of exploitation by foreign capital few Indians have been trained for holding administrative positions in these foreign capitalised corporations which I consider as greater loss to the country than anything else.

Does India require foreign capital?

In determining, therefore, as to whether we should allow foreign capital in this country and if so, what regulations should be there for such entry will depend upon several factors and policies that the new Governments are likely to follow. In this connection, it may also be necessary to find out the legal position under the Government of India Act of 1935 as to the regulations that may be adopted for encouraging entry of foreign capital in India. It is anticipated by many that if India decides to accelerate industrial development she may be requiring large amount of foreign capital at a cheap rate after investigating fully the total new capital available in India and the rate at which new capital would grow. They anticipate that for a considerable time yet India would be obliged to borrow from foreign countries, savings of new capital being very much inadequate for large Government borrowings, public bodies borrowings as also the requirements of industry. If this view is correct then they say that it is necessary that regulations in this connection must also take into account the non-availability of

such foreign capital in case of too harsh regulations. Such regulations they urge must also take into account the impracticability of enforcing such regulations in an international state of capital movement which is highly fluid. For instance, the commercial borrowings would be mostly operated by Exchange Banks and Empire Banks and it may be very difficult to distinguish between credit meant for international trade finance with that of foreign capital for industrial development.

An Estimate of Total Available Capital in the Country —Necessary

But before we come to the question of regulation of import of foreign capital there are several important factors which have to be considered. In the first place, this Sub-Committee before it can make any suggestions regarding the import of foreign capital, must be in a position to know the amount of capital available, in India for the purpose of development of industries. Unfortunately the statistics available are so scanty and meagre in this regard that a very reliable estimate cannot be made as to the amount of capital that is available at present or that will be available in the near future, say within the next 5/6 years so as to adjust the capital requirements for industrial development on a national scale and in a planned manner. An estimate, therefore, of the total available capital in the country must have to be made before we can think of attracting foreign capital for our industrial development. No doubt certain datas are available in this regard. The total amount of Savings Bank Deposits in the Post Offices and the accumulations thereto from year to year, deposits in the Banks, premiums collected by Insurance Companies and other financial institutions will give a very rough idea of the total available capital in the country and the gradual expansion of the same by natural process. But this will be a rough estimate no doubt, for, hoarded wealth of India is supposed to be absolutely unlimited and it is because of the political and other causes Indian capital has been shy from time immemorial and the hoarding habit of the people has not yet altogether gone. As an example of this hoarding habit the hoarded capital of India may be guaged by the fact that during the last 9 years gold worth at least Rs. 350 crores have gone out and no one can estimate how much more gold is still available in the country in various forms. From time immemorial India has

been proverbially the sink of all precious metals, particularly yellow and white metals. India has also had huge favourable trade balances for generations together and all these inspite of plunder of the foreigners in the past centuries as well as the exploitation of the Britishers for over a century and a half on an enormous scale. Personally I believe that given political security and a stable economic level there would be very little need for India to go anywhere else for capital supply. What is needed is marshalling of the sources of capital and organising on planned basis and bringing these hoarded wealth into organised banking system and utilise them for production purposes in modern methods and conditions.

Capital requirements of industries.

In this connection it may also be worth while to enumerate the needs of capital for industries. The three-fold needs of capital for an industrial concern would be (1) fixed assets in the form of machinery and appliances etc., (2) for purchase of raw materials; (3) for payment of wages etc., before such an industry can put its products in the market.

Capital importation on reciprocal basis.

1. As regards item No. (1) no doubt in the initial stages we shall require good deal of machinery and appliances for developing such industries. It is in this regard that an estimate will have to be made by various Industrial Sub-Committees of the National Planning Committee as to their requirements of capital for the next few years. Even here it may be that for the first few years we might have to import certain amount of machinery and appliances. But as the aim of the National Planning Committee is to develop not only industries for supplying finished goods but also for supplying capital goods such as machinery etc. our requirements in regard to machinery in the course of a few years is also likely to be less and less. Moreover, in regard to purchase of machinery and appliances from Foreign Countries it may be possible to enter into trade treaties with such countries on reciprocal basis thus eliminating the need for any capital movement in this regard. It must always be our aim to pay for the machinery and appliances that we want to import by exchange of goods and services and not by capital borrowings. New Nations who have come to the forefront of industrial development have also adopted these methods, and have always economised the capital importation into the country by having reciprocal trade treaties. In this

regard our attention should be directed to the countries like Japan and more recent instances like Germany, Russia etc., where modern big scale industries have been developed within a very few years without much importation of capital.

India almost self-sufficient in matters of Raw Materials and Labour.

2. With regard to item No. 2 (raw materials), there is absolutely no need for this country to import and pay to foreign countries. India possesses abundance of almost all classes of raw materials and those that are not available can be produced to meet her own needs. She has also abundant supply of mineral resources excepting probably Petroleum and Petroleum Products and one or two other products. This shortcoming of Petroleum can, however, be effectively met by extraction of Gasolene from coal or by manufacture of alcohol. Substitutes would also be possible in case of one or two shortage of mineral raw materials.

3. In regard to labour supply, both technical and non-technical, India need not borrow any from other countries except probably a limited number of technical experts in the first few years.

Economising the available capital.

A. There are several other ways by which we can economise our available capital and thus avoid importation of Foreign Capital to a great extent. At present a good deal of capital is wasted in this country in industrial ventures which have either no prospects of success or due to inefficient management. Wastage of such capital must have been very enormous during the last 25 years or so. Wastage of capital is due to several causes most important of which are (1) unplanned method of starting an industry for which there is hardly any prospect of success in the country, (2) inefficient management of such industrial ventures and the wrong and costly methods of management adopted. Managing Agency System of industry, particularly the hereditary Managing Agency System, is at present the greatest curse of industrial management in India which sap the vitality and the efficiency of management of an industry and as such should almost immediately be abolished; (3) use of obsolete plants and machinery; (4) bad location of industries; (5) overcrowding; (6) uneconomic unit; (7) over-capitalisation. (In our country over-capitalisation has almost always led to wastage of capital. In case of other

Waste of capital to be stopped.

countries, however, mostly such over-capitalisation has been utilised for concentration in industry leading to more efficient management).

Under a planned system of industrial development it should be made impossible for anybody to start industries without pre-requisites of essential elements of success of an industrial venture. Moreover every industrial venture of any scale should possess a licence from the Executive Council of the National Planning Commission. The Council under advice from the Industrial Research Board would before granting a licence satisfy itself on (1) the desirability of starting an industry at a particular place or by particular persons, (2) the technical aspect of the question, (3) its chances of success, (4) whether an addition to the industry is desirable from the point of view of rationalisation of the industry as a whole. Under such conditions it would save the country of a terrible waste of capital and energy as we are seeing at present due to unplanned method followed in the present industrial development of this country.

Licence and Expert advice needed before starting an industry.

B. In case the development of industries are made on a planned basis after the prospects of same have been thoroughly investigated, it would also save capital in other ways. A great deal of raw material is also wasted either by following obsolete methods of production as well as by over-producing the things that may not be consumed by the country or there would be no chance of exporting them to foreign countries in the near future. A planned basis of industrial development can save a great deal of such raw materials particularly those for which the country can have only limited supply such as minerals etc. This also helps saving of capital.

Economising raw materials.

C. In labour cost also, both technical and non-technical, our industries can save a great deal by introducing the efficiency basis. As at present, our system of recruitment of human labour is anything but on the efficiency or national basis. Favouritism and nepotism are our methods of present recruitment of technical and non-technical labour and hence the present inefficiency in our industrial management. I am of definite opinion that our industrial and business houses can be managed within less

Economising in Labour & Management charges.

ciency basis instead of the present basis and a good savings of capital can be made in this direction.

At present too many foreign hands.

It must be possible to save a great deal by replacing the numerous foreign experts who are absorbed in our industries today by efficient Indians. It seems our Industrialists, whether Indians or Europeans, have a craze for foreign experts and it is strange that even in those industries which have been established in this country for generations together and which are under Indian control, there are numerous Europeans at present and even now many foreigners are being imported by our industrialists. This phase of our Industrial Finance and Banking Corporations should be freed from this so called foreign experts without delay.

Replace Foreigners by Indians.

In fact we must marshall all our best resources, both men and money, if we want to succeed in any scheme of industrial venture in competition with the rest of the world. Even in a planned industrial development there is a limit to which we can shut out the rest of the world in competing with us. Efficiency cannot be very long supported by tariff walls. Our Industrialists must realise that they have a terrible national responsibility and cannot expect the country's support, both in patriotism and protection for a very long time if they manage our industries in the present fashion, and if they go on encouraging inefficiency by supporting persons only because they belong to a particular community or a particular caste or a particular family. Such things must be made impossible under a planned system of industrial development in India.

Industrial Management on efficiency basis.

Political democracy will be meaningless and would be impossible to run if we cannot attain industrial democracy in our country. I sincerely believe that we in India do not desire the same type of industrial exploitation of the country by only a few and thus leading to an industrial imperialism which seems to be the guiding idea in countries like America and England today. It may be a news to many that the enormous wealth of America, nay the entire economic life of the country, is controlled by a handful of designing financiers through a system of capital control in various forms which spreads like the Spider's Web. We must guard against the dangers of such an oligarchy in Indian industrialisation so that it should be made impossible only for

Industrial Democracy—the aim.

a few individuals to enjoy the exploitations by industrialisation at the expense of the vast majority of people.

Re-organisation of Jt. Stock Corporations and Credit Institutions needed.

D. But more than estimating of the existing capital and making economics of our capital resources in various directions, as mentioned in the previous paragraphs, there is the need that we must marshal all our resources in a planned manner and this requires a thorough reorganisation and rehabilitation of our credit and savings institutions and other existing corporations for industrial development. With regard to Industrial Corporations, as mentioned in a previous paragraph laws relating to same should be so changed as to inspire the greatest amount of confidence in the public. It is a well known fact that our Company Laws are very slack and inspite of the fact that they have been so recently as 1936 remodelled yet there are good deal of loopholes for defrauding the general investors in this country by the designing financiers. As mentioned in a previous paragraph, industrial management and recruitment in that regard of man power should be based absolutely on efficiency basis and must not be left to whims and caprices of individual industrial magnates. The Managing Agency System which debars introduction of fresh blood in our industrial management must be abolished forthwith. The claim that capital would not be forthcoming without managing agency system of management is nothing but a Myth and can be exploded at once with the idea of planned industrial development. The fact is that the Managing Agency Class have been in the past also custodians of capital savings of the people in some form or other in the absence of organised Banking System and thus commanded credit in Society. But today with the extension of independent Banking and Credit structure, capital will flow into the industries more freely or be made to flow more freely if the Planning Commission is satisfied about the success of an industry or if it is needed in the national interest. World over this is the system which succeeds, and there is no reason why in India it should be different.

Managing Agency System unnecessary and unhelpful, must be abolished.

Credit structure must be reconstructed and rehabilitated.

In every country Credit and Savings Institutions are placed on a high level of efficiency and are directly under greater Government control in view of the fact that by the credit policy adopted by these institutions they can make or mar the industrial development of a country.

Serious efforts should be made to encourage thrift through Thrift Institutions and Savings Banks throughout the length and breadth of the country. Such Thrift Institutions and Savings Banks should be brought much more under Government vigilance as they directly concern the poorest people in the country. The argument that has been applied in case of Insurance Companies for greater government control must also equally apply to thrift and savings Institutions. In fact, Savings Institutions and Savings Bank Deposits must in the first place be separated entirely from commercial banking in order to make them safe from the hazards of commercial banking. Investment Houses and Corporations should be encouraged to be developed and Industrial Banks will have to be instituted in order to marshal the resources of the country and apply it to industrial development in the country. In this connection it may also be mentioned that some undesirable practices are also being developed in the matter of our Investment and Financing Corporations. Holding Companies are being organised by designing financiers thus leading not only to over-capitalisation in a particular industry but also control of industries by a particular group of persons which ultimately leads to inefficiency and mismanagement. This, however, should not be mixed up with Holding Companies which are meant primarily for facilitating concentration in industry and which ultimately lead to efficient management of Industrial Corporations. Even such concentration in industry must, however, be under greater and greater government control. Other institutions such as Investment Trusts and various forms of Investment Trusts should be encouraged to grow for underwriting industrial shares as well as distributing shares to the small investors with degree of safety. The recent developments of Investment Trusts and Corporations in this country has tended to grow rather on unhealthy lines. They act more as Holding Companies for perpetuating control of Industrial Corporations than for underwriting capital for fresh industrial ventures.

Banking Laws must be made more strict.

Our Banking Laws must be made very strict and should, as far as possible be made safe from catastrophic failures. It should be made impossible for extension of banking credit to individuals and Corporations controlled by friends and relatives of the executives of these Credit Institutions. In fact they should be directed towards a planned development of industry and business in national interest. In a planned economy system it is not enough merely to look to

the better distribution of wealth. It is also necessary that such industrial development and progress must be on orderly lines and should, as far as possible, be free from too much ups and downs in business trend—booms and depressions which are the constant features of unplanned methods and of capitalistic system of production. This, to a great extent, can be achieved by a judicious and planned extension and control of Bank credit.

Control of Booms and Depressions by credit control.

In short our entire credit structure in any form whatsoever should be thoroughly rehabilitated and reorganised to meet the modern requirements of a planned industrial development. The Reserve Bank of India, which has to be entrusted with the re-organisation and rationalisation of our entire credit structure, will itself have to be probably reshuffled and the entire administrative machinery of the Reserve Bank will have to be thoroughly overhauled. It is unfortunate that though the Reserve Bank is expected to rehabilitate the credit structure of the country, yet it has not given promise of any such tendency uptil now. As it is the Reserve Bank, it seems, feels only the responsibility to act as Currency and Exchange Authority of the Government with efficiency, while neglecting the other important functions of a Central Banking Institution absolutely.

Reserve Bank's Role.

If after such efforts of economising all our savings, both open and hoarded, and also economising our raw materials and adopting the most efficient methods of management we still require importation of foreign capital in any form then, as suggested above, it must be done on the **basis of reciprocity** as far as possible. If any capital importation is needed in the form of money, which I doubt it should, it may take the form of short dated loans and Debentures at fixed rates without any right of management of industry or any other political right. This is how I would like Free India—for which we are planning today to encourage importation of foreign capital. The present foreign capital must be shred of its political right, but may be given time to adjust itself to the regulations in respect of foreign management of industries which are at present being controlled merely by virtue of capital investment. The regulations, however, need not include short term bor-

Free India's Basis of importation of foreign capital.

No right of management—no political right.

rowings for international commerce where the borrowings are usually for periods not exceeding six months.

Regulation for Export of Capital.

In a future scheme of things all foreign borrowings—whether long or short term—whether for private or public borrowings—would be controlled by the State in order to prevent flight of capital in case of national necessity. This is how other Governments and other Nations do and there is no reason why India should not do likewise.

Copy of letter dated 13-7-40, from Mr. B. T. Thakur, Karachi, to the Secretary, Industrial Finance Sub-Committee of the National Planning Committee:

"I thank you for your communication enclosing therewith copy of Interim Report of your Sub-Committee. I enclose herewith my note on the same, in duplicate, which may please be attached to the Interim Report. The Report may now be considered as signed by me, subject to this note.

In case, the report has already been submitted to the National Planning Committee, may I request you to please forward it to the Secretary of the N.P.C.?"

Note by Mr. B. T. Thakur on the Interim Report of the Industrial Finance Sub-Committee of the N.P.C.

Since my appointment to this Sub-Committee I have received only one notice of its meeting, but unfortunately, I could not attend even that meeting as I had a prior and unavoidable engagement in Calcutta. I had, therefore, no benefit of discussion with my other colleagues.

However, the problem which the Sub-Committee has to consider is quite simple. What should be the best industrial credit arrangements to advance Indian industries? Solution of this problem will fundamentally depend upon the arrangement that is finally decided about ownership of industries. It is not in the province of the Sub-Committee to say which agencies should own and control different types of industries, which, I presume, would be the function of some other Committee. State ownership and management of industries is not only possible but advantageous from the general point of view. Old theories and ideas based on the need of competition and the fear that vesting of monopoly in the State would lead to inefficiency and deterioration in quality have proved to be of little or no value. From my personal knowledge and experience, I have come to the conclusion that in India private ownership has in many cases proved inefficient, and whether that be the result of want of technical knowledge and ability on

the part of the promoters or of those in whom ultimate responsibility is vested or due to other causes is immaterial.

Likewise, I am not prepared to accept that a large-scale industrial-cum-social programme by the State is likely to make private capital shy or weaken State's capacity to obtain credit from the public.

Personally I would favour State's taking over all industries—big and small—because firstly the State's power to suffer losses is more than that of any individual or group of individuals, secondly net result on industrialisation taken from all industries will be on the right side and loss from some will be compensated by gain from the others and thirdly profit on industries will be retained by the State and be utilised for the general good of the community.

It is perhaps feared that the State officials are not competent to manage industries. This may be true of the present Government servants. But under the new order of things if the State assumes full responsibility for industries, it will have necessarily to engage technical and experienced men to manage different industries, and such supervision and management will be far more efficient than is provided by the present directors who in many cases lack the qualifications requisite to manage their concerns.

However, as I have remarked before, it is perhaps not the function of this Committee to say who should own and work the industries and it must therefore answer the question of industrial finance and industrial credit by taking alternative methods into account and suggesting most appropriate means for each.

Briefly speaking ownership of industries can be grouped under the following heads:

1. those that are owned and managed by the State;
2. those that are owned by the State and handed to private agencies for management;
3. those that are owned and managed by private agencies.

One can also contemplate organisation of industries under private ownership with power to the State to take them over at the end of stated periods, in consideration of the State's giving subsidies and facilities for their development, at a fair compensation. Such a hybrid arrangement is undesirable and may lead to unnecessary disputes as to

compensation at a later stage. It is best to start with full fledged State industrialisation.

Industries owned and managed by the State:

With regard to this type of industries, the financial responsibilities will rest entirely on the Government. The Government will raise money by loans and these loans will also form a part of their general borrowing programme.

Inasmuch as these loans will be for productive purposes, public should have no hesitation in subscribing to them. In their final analysis loans are creation of credit and when credit is backed by industries, it is not inflationary in its character, nor a factor responsible for weakening currency value. Further as a result of State industrialisation, scope for private investment in securities other than Government bonds will be greatly curtailed and under those circumstances Government Promissory Notes should be the ideal form of liquid security. I regret I cannot endorse the apprehensions referred to on pages 6 and 7 of th Interim Report under 'Public Utilities'.

It may be urged that new industries may involve purchase of machinery from abroad and consequently may involve export of funds. It should not be impossible to arrange some credit abroad for the purpose of such purchases; and even it may be necessary to export funds, but as our heavy industries begin to function, need for foreign imports should decrease. A considerable part of expenditure in the shape of buildings, etc., is incurred in the country and financing of such expenditure will involve general internal increase in the economic activity of the country and thus form valid basis for expansion of credit and currency.

If ratio between currency and productive activity is maintained, the purchasing power of the monetary unit is not affected.

When monetary and credit policies are the subject of scientific control, they can be so moulded as to be the best hand-maids of planned industry; and the State should not experience any difficulty in its borrowing programme for the purpose of industrialisation. It can even expand currency against its promissory notes. It will be necessary to restrict facilities for the conversion of monetary unit into foreign value but when most of the countries in the world have put restrictions on such transfers, India can do likewise. We have today restrictions on transfer of money

from India to foreign countries. This is in pursuance of war requirements. We should do likewise in the interests of India's industries.

For the purpose of economy, there should be fixed one Central Borrowing Agency on behalf of Provincial and Central Governments, and there can be no distinction whether the money is borrowed as Government borrowing has been understood until now or for the purpose of the development of industries. By whatever name this organisation be known, its sole purpose would be to explore all avenues of borrowings and borrow as cheaply as possible. In some cases it may find credit in foreign countries cheaper than home borrowing and there is no reason why scope and possibilities for such external borrowing should be neglected.

Mr. Majumdar refers in his note to the danger of foreign capital. Of course, there should be every objection to the exploitation of our resources by foreign capital and when money is borrowed abroad under controlled conditions, on interest basis, there could be no objection to availing of such an assistance.

During my recent visit to the United States I had talks with bankers, financiers and New-deal officials. Every one conceded that India with its large raw materials of every type and consuming millions is the ideal country for industrialisation; and foreign financiers and manufacturers of heavy industries shall be simply too glad to extend credit and technical knowledge in the initial stages of our industrial growth.

Industries owned by State, but worked by private agencies:

Capital required for industries under this head can be got on the same lines as referred to under the previous head. If the private agency entrusted with working has to provide funds for working capital, it can be assumed that the agency will have enough resources of its own or alternatively be sufficiently credit-worthy to attract enough money for successful working.

In my opinion this is not an ideal form of organisation and should be avoided as far as possible. It has, however, been included so as to enable the State to take advantage of all private technical establishments in carrying on the industrial programme, should the present vested interests terribly agitate against State's assuming full industrial responsibilities. Perhaps, in the state of transition when

it is desirable to avoid too many sudden jerks or changes, such an arrangement may lead to smoother fulfilment of industrial programme.

Private Ownership and Private Management:

If industrialisation has to be done through private efforts the problem of industrial capital will depend upon several factors, but the principal amongst them will be:

a. Has the industry inherent capacity to work profitably?
b. Are the promoters able to get requisite capital through private or public subscription?
c. Is there need of some systematic Credit Agency which in the case of approved schemes should lend its assistance?

Most of the industries prove failure in India because in their initial stages they have to spend large sums in training labour and making them competent to carry on various operations involved in the manufacturing process and putting of such charges on cost of production reduces the competitive power of home industries as against imported articles. Skilled and efficient labour cannot be had in a day. It requires both money and time and unless industry has sufficient capital, it will experience financial difficulties in the earlier stages of its career. Remedies against this are:

1. Subsidisation of industries either by increased tariff on imported articles or through direct aid by the State. If a concern has a large capital of its own, it may have sufficient strength to meet initial losses and then recoup all such losses by subsequent profits. But unless an industry has visible and speedy prospects of a success it will be difficult to expect greater response from the investing public.
2. The present is not the time for small or cottage industries and most of our cottage industries today have no inherent capacity to work profitably; and unless a venture is productively a success, that is, it has a competitve power, credit arrangement will be of little help. This is why most of our Co-operative Credit Societies have proved failures and even Societies meant to provide credit for cottage industries have had no better success. An attempt to provide credit for most of our cottage industries must prove a failure. If instances are found where

some home or village industries can be worked successfully, provision of mutual credit facilities along with sales organisations may prove a success, but backing of the State may be necessary in the initial stages, i.e. State may have to assume responsibility for losses, if any, on the provision of credit and sales facilities.

3. Looking to the low standard of the people and weakness of our defence against aggression, large scale industry is the only means whereby to make good these deficiencies. Cottage industry has no reserve to meet these demands. Surplus from powerful and large industries will not only provide means for these purposes but also accumulate capital for greater growth.

If an Industry has germs of success, there should be no difficulty in its obtaining requisite capital. Past experience has proved that such is the case.

However, if the investing public needs competent guidance about the possibilities of an industry, it may be a good idea to establish an Industrial Bank on an all-India basis with branches in various provinces. Such a Bank will not provide all the capital the pioneers of the industry may require, but perhaps may give an aid by agreeing to supply deficiencies of capital. Such an aid may be in the form of Preference or ordinary shares or debentures. Support of such a bank to an industry will create confidence in the public.

Can such a Bank be started by the public without Government's aid? My answer is No: In Mr. Lokanathan's note, it is suggested that the existing banks may start such a venture. When one analyses the present banking situation, one finds that more than 2/3rd of the country's banking system is controlled by non-Indians and they will never co-operate in any venture like this. Most of the Indian banks which carry on the remaining 1/3rd of the country's banking system, do not work on sound lines and such of the Indian banks as can be called first class will hardly risk their reputation or liquidity by assuming in any considerable degree responsibility for providing long term credit for industries. Before they can assume even limited responsibilities for this type of finance, it will be necessary to change the Reserve Bank's constitution, for unless the industrial investments of banks can serve as backing for

the borrowing of commercial banks at the Reserve Bank, commercial banks must avoid going deep into this type of credit. Moreover under the present provision of the Indian Companies' Act, it is risky for Joint Stock Banks to underwrite shares, because they may be saddled with a large portion of the capital and by law they cannot have their subsidiary a non-banking concern.

An Industrial Bank must ultimately rely upon Government backing for its success.

A reference is made in the report to the U.P. Industrial Bank, but history of this bank shows that it is a thorough failure. When the report of the Committee was published I had expressed that it would not help matters in any way. This is proved by actual results. It was difficult for this Bank to get capital although Government undertook to give an annual grant to meet its expenses and for other purposes.

If an Industrial Bank is to be a success, it must not only have a large capital, but also sufficeint technical staff to correctly judge merits of an industrial application. As far as I am able to judge, such an institution cannot come into existence by private efforts.

I think India must follow the example of U.S.A. For its new deal programme, U.S.A. Government has invariably provided capital from its funds; and when a scheme became a success, it is converted into a private enterprise. Similarly in India, State can establish an Industrial Bank and provide whole of its capital from its own funds or borrowings. And after it has proved a success, it can be transferred into a public company. The minimum capital should be Rs. 5 crores and it should have a technical staff associated with its investigating side, to whom applications for industrial borrowing should be referred to.

Most of the resources of the Industrial Bank will have to be obtained through debentures; and in the initial stages, it may experience some difficulties in creating confidence in the public about its debentures The State should be prepared to lend its name by way of guarantee as has been done in the case of Agricultural Land Mortgage Bank.

A satisfactory method of subsidy or aid to an Industrial Bank is found in what is known as partial guarantee of loss on its lendings. For certain types of credits, which banks are loathe to extend, either because of their novelty or great loss ratio, U.S.A. Government undertakes to reimburse banks' loss upto a certain percentage of their total

credit, upto a certain maxim and actual experience of banks is that this form of assistance has proved very valuable to the general public, made banks liberal in their credit policy and at the same time loss suffered by the Government is negligible. Some such arrangement can subsist between the Industrial Bank and the Indian State.

12th July 1940.

Copy of letter No. 8322, dated 18-7-40, from Mr. A. Mohiuddin, Hyderabad (Deccan) to the Secretary, Industrial Finance Sub-Committee of the N.P.C.

"Ref: Your letter dated 12th July 1940:

I am afraid I cannot agree with the Report. There are many points which I should like to be altered. It would be desirable to hold a meeting of the Sub-Committee to consider the Report."

Copy of letter dated 17-7-40, from Dr. N. N. Law, Calcutta, to the Secretary, Industrial Finance Sub-Committee of the N.P.C.

"**Re: Draft Interim Report of the Industrial Finance Sub-Committee** I have to acknowledge with thanks the receipt of a letter of the Chairman of the Industrial Finance Sub-Committee of the 18th Ultimo, together with the draft Interim Report of the said Sub-Committee. I have read the Report carefully and subject to the observations made in the accompanying note (Annexure 1.) I am in general agreement with the views expressed in the Report. I am also enclosing a further note (Annexure II.) on the Problem of Industrial Finance in Bengal based on a note prepared by me as Chairman of the Industrial Finance Sub-Committee of the Bengal Industrial Survey Committee (appointed by the Government) and recently submitted by me for consideration by the said Sub-Committee. I should, however, mention that this latter note is based on conditions more or less peculiar to Bengal. I feel that the suggestions made in it in regard to the establishment of an Industrial Bank may with necessary alterations be adopted in regard to the establishment of similar institutions in other Provinces."

ANNEXURE I.

Observations on the Interim Report.

I. Re. Paragraph 12.—While it is true that the system of Managing Agency has helped many industrial concerns in India, particularly the Cotton Textile Industry in Bombay and Ahmedabad and the Jute, Tea and Coal Industries in Bengal, in obtaining the requisite finance, the position

in Bengal particularly with regard to the middle-sized industries of the Province is rather different. Although, many industrial concerns are managed by Managing Agents with all the rights and obligations under the new Company Law, the latter do not in many cases possess the resources and command the confidence which would enable them to act as financing agents to the industrial concerns to which they are affiliated. The statement made in the concluding portion of the paragraph that "The Managing Agents financed, to a large extent the industries with which they were connected and also arranged for finance through the Banks which, otherwise, would not advance to industries as such without the guarantee or security of people like Managing Agents" is not, therefore, applicable to the large number of middle-sized industries of the Province. The condition of the latter has been dealt with in Annexure II.

II. Re. Paragraph 13.

The instances of industrial concerns in Bengal accepting deposits from the public and utilising the same either as block capital or as working capital are rare. Though, undoubtedly, there is a small number of such concerns, they form a very small proportion of the total number and do not, therefore, represent the average. Most of the concerns have to face considerable difficulties in collecting the requisite share capital, not to speak of attracting deposits.

III. Re. Paragraph 14.

While I agree that the principle that the fixed capital expenditure of an industry should be found mainly, if not entirely from the subscribed and paid-up capital, the balance, if any, being found out of debenture issues is quite sound as a theoretical statement, it cannot apply to conditions prevailing in Bengal. The question whether a particular industrial concern should raise its entire capital from shares or from debentures is relevant only when it can tap the capital market and when its promoters or Managing Agents can raise the necessary amount. But, as has been explained in Annexure II, the people of Bengal, and probably of some other provinces as well, lack the tradition of industrial investment for which capital has been proverbially shy. The peculiar conditions of Bengal have encouraged the investment of the savings of the people either in land-owning or in money-lending, and the capital market, in so far as it exists, have remained outside the pale of a large number of industrial concerns.

Indeed, as the Interim Report itself admits in paragraph 16, there is hardly any recognised agency for raising long-term finance for industries. The conditions call for a specialised institution, and suggestions for an Industrial Bank for Bengal are contained in Annexure II.

ANNEXURE II.

Scheme for Financing of Industries.

The problem of industrial finance has to be studied in connection with the requirements of the industries, both existing and potential, in regard to (a) bloc and (b) working capital, the latter being further divisible, for practical purposes, into (i) permanent working capital and (ii) 'temporary' working capital according to requirements. Each of these requirements involves certain typical problems of varying significance according as they relate to existing industrial concerns or new enterprises.

I. Existing Industries.

(a) Block Capital

Among the existing industrial concerns there are many, which though fairly well-managed and inherently in sound conditions are nevertheless found to experience difficulties in securing long term advances for expansion of their business. Not that they are always unable to secure the necessary capital, but in many cases they have to obtain funds on terms which are prohibitive and unbusiness-like. They are, therefore, faced with the alternatives, either to abandon all schemes for expansion or to undertake the risk, which often proves fatal, of borrowing at extremely unfavourable terms. Thus in the case of going industrial concerns, the problem of obtaining funds for 'bloc' capital is to enable them to obtain long-term advances on terms which are reasonable, so as to make it possible for such industries either to undertake new schemes of expansion for profit and stabilisation or to pay off their existing loans which may have been secured on very unfavourable terms.

It is not, however, merely for 'bloc' capital that the existing industries require to be accommodated. Their problem of working capital is hardly less important. There are cases of industries which having successfully collected sufficient capital for setting up their plant and machinery have nevertheless had to wait for a long time before they could secure necessary working capital for running the factory. The requirements of such working capital may, how-

ever, be classified under some such terms as 'permanent' and 'temporary'.

(b) Working capital, permanent renewable advances.

In the category of 'permanent' working capital may be placed those loans which are in the form of accommodation which is usually continued every time on the expiry of the stipulated period and which the industries cannot always obtain from commercial banks. A few of such banks do, of course, lend a small portion of their funds to industries in this manner, but the very nature of the functions and scope of commercial banks does not warrant the certainty that such facilities may be continued indefinitely. Any untoward events causing financial embarrassment to the bank or change of policy in regard to lending may at any moment compel the banks to discontinue the loans on the expiry of the stipulated period. Further, even for such accommodation for working capital, commercial banks usually insist on the personal security of the management in addition to acceptable collateral security.

(c) Working Capital, temporary advances.

In regard to the 'temporary' working capital, however, industries are generally able to obtain their requirements from commercial banks. Such accommodation is generally granted against trade bills, a business which is regarded as being in the nature of ordinary business of commercial banks. It is only in regard to what has been described as 'permanent working capital' that the industries have to suffer considerable difficulties.

II. New Industries.

The problem is somewhat different in the case of new industries. The experience of new industrial ventures during the last few years shows that in many cases they are not able to secure even the share capital necessary to enable them either to construct factory buildings, to purchase machineries or/and, in some instances to acquire land for factory site. Any help that may be rendered to them will have to take into account the necessity of supplying their deficiencies in share capital up to an approved limit and also for granting to them supplementary working finance which, as has already been mentioned, comprises both 'permanent' and 'temporary' advances.

The case for a separate Industrial Bank examined.

A careful investigation into the present position as revealed by the above analysis of specific financial requirements of industries would lead to the conclusion that the establishment of a separate industrial credit institution is essentially necessary. And, for reasons stated hereafter, it would also be necessary for the Provincial Government to render substantial financial assistance to the institution. In forming this opinion, due account has been taken of the considerations which can possibly be urged against such a proposal.

(a) Suggestions for direct Government Finance.

It may, for instance, be suggested that instead of asking the Government to undertake some financial responsibility for a full-fledged industrial bank, the Government might as well be asked to render direct financial assistance to such new industrial ventures as may be found on a careful inspection to have very good prospects. Such a scheme, however, has to be ruled out on some fundamental grounds. Apart from the objections which may be raised to any scheme of Governmental interference in the day-to-day administration of industrial concerns which such a scheme would entail, it would not be possible for Government to provide the amount of capital that may be necessary for financing more than a very limited number of industrial concerns. Besides, the experience of the working of the State Aid to Industries Act does not encourage one to hope for an expeditious and satisfactory disposal by Government Department of the loan applications submitted by new industrial concerns. Such a procedure would also be exposed to the risk of undesirable political influence in the matter of granting loans to particular industrial concerns. It is, therefore, far better to have an entirely separate financial institution backed by necessary assistance from the Government which should be run as an independent concern governed entirely by sound principles of banking in its management.

Possibilities of mixed banking.

Objection may, in the second place, be raised to the establishment of a separate industrial credit institution on the ground that some of the existing well-established commercial banks, carrying on their ordinary banking business on safe and sound lines, might be encouraged to adopt the

system of 'mixed banking' and cater to the long-term financial requirements of the industries. As a matter of fact the Central Banking Enquiry Committee had, while recommending the establishment of an Industrial Credit Coropration for each Province, suggested this method as an additional line of approach to the problem of Industrial Finance. It appears that some of the commercial banks in this province have already adopted to a small extent such a method of mixed banking. But the experience of practically all of them point to the danger of mixing the two kinds of business. The machinery at their disposal is hardly up to the standard for enabling them to test the soundness of the proposals received from industrial concern's for long term loans. Besides, the funds at the disposal of most of them, particularly of those that are under Bengali management, are not at all sufficient to allow such short and long term business to be conducted with safety. It has often happened that a bank, having invested an unduly large proportion of its funds in the form of long term loans against 'bloc', in itself a sound security, had to experience considerable difficulty in meeting its demand liabilities to short term depositors. In more than one case, this unwise mixing of business has led to the liquidation of the banks. The result has been that commercial banks have become extremely shy of industrial investments. It is, therefore, as much in the interest of the industries as in that of the commercial banks themselves that the task of industrial finance should be entrusted to an entirely different form of institution having necessary equipments for undertaking the responsibility.

Subsidising Commercial Banks.

It may, however, be suggested that a few commercial banks of standing and satisfying certain standards may be encouraged to undertake industrial finance if they are subsidised by the Government to the extent of any loss that may be sustained by them as a result of such business. There is much force in such a suggestion, but in order that such a scheme might work successfully, certain safeguards would be necessary. It would not be fair to Government to ask them to provide that all the losses sustained by the commercial banks as a result of their long term advances to industries should be borne by Government. It would be quite sufficient if the Government guaranteed to the commercial banks 50% of the losses, if any, that they may sustain, while at the same time the maximum amount which the Government might be expected to provide for such a

contingency might be statutorily fixed at, say, Rs. 2 lakhs annually for a stipulated period, after which the case for renewing similar arrangements may be examined. The operation of such a scheme would, however, require that whatever financial provision is made on this score by Government should be taken out of the annual vote of the Legislature, and it would be necessary to fix the amounts of the indemnity vouchsafed to each of a number of selected scheduled banks. If the amount is not spent in any year, the balance should be carried forward to a special fund and accumulated to be utilised for the development of industries.

Such a system would obviate the interference of Government with the decision or discretion of the commercial banks in making their advances, and the fact that Government would bear only a share of the incidental losses would itself act as an effective safeguard against abuses of the facilities. The consciousness that only 50% and nothing more of the losses will be guaranteed by Goverenment will be a sufficient check on the commercial banks compelling them to exercise great care in lending money to industries.

Such a system, if worked under proper safeguards, should admittedly be an improvement on the present situation. Even so, it would invite serious criticisms in the light of the latest trends of the theory and practice of industrial banking. Almost everywhere, mixed banking is now being regarded with increasing disfavour, and the need for setting up specialised institutions for the supply of long and short term credit is gaining wider recognition. Even in England where specialised institutions for the grant of long term credit were singularly absent till a few years ago, the old tradition is steadily giving way; and in Germany which was the stronghold of mixed banking, the latest trends are definitely in the direction of restricting the grant of long term credits by ordinary commercial banks. A special significance is, therefore, attached to the fact that the Central Banking Enquiry Committee stressed the need for setting up a special credit machinery for the supply of long term industrial finance in this country even while they admitted that the leading commercial banks might make such advances up to a certain proportion (about 10%) of their capital and reserve. In Bengal at the present stage, any plan of entrusting the responsibility to a few selected scheduled banks which, with the exception of a few, have very limited resources and do not possess necessary equip-

ments for the appraisal of industrial schemes and prospects, would be to leave things to uncertainty; and this can by no means be justified in the light of the urgency and importance of the problem. Apart from the dangers involved in mixed banking and the inherent drawbacks of ordinary commercial banks, the very fact that the Goverenment guarantee for indemnification of losses would be limited to a minimum specified amount may in actual practice prove to be a serious check on the elasticity of the system. The condition that 50 per cent of the loss should be borne by the subsidised commercial banks may be welcome from the point of view of safety but it may as well seriously impair the effectiveness of the scheme itself, as the banks may not be encouraged by it to adopt a forward investment policy. Eventually, the Government guarantee of a loss up to say Rs. 2,00,000/- annually is likely to be found inadequate for the solution of the problem of industrial finance in a major province like Bengal.

Industrial Bank.

The necessity of a separate industrial credit institution would, therefore, appear to persist, whether the other scheme of offering a Government guarantee for indemnifying a specified amount of losses on investment to approved commercial banks against their long term advances to industries is adopted or not. The most important point, however, that need be considered in this connection is whether conditions at present are quite suitable for ensuring the successful working of the proposed institution. As has already been stressed, many sound industrial concerns are suffering a considerable handicap owing to the lack of long term credit facilities and many new industrial ventures are not even able to commence business owing to difficulties in raising the necessary share capital. On the other hand, considering the present position of the money market and also the restrictions imposed by the Bengal Money Lenders' Act on ordinary money lending, it is to be expected that, provided Government come forward and offer favourable terms, adequate public support for the proposed industrial credit institution would be forthcoming.

Government participation in share capital and guarantee on debentures.

The success of the bank would, however, largely depend upon the auspices under which it is brought into existence and on the degree of public confidence and support

enjoyed by it. To this end Government may be asked to help the proposed institution by undertaking to take up any shares left over after public subscription and also by offering a limited guarantee of interest on the debentures which the proposed institution would have to issue in course of time.

In suggesting that Government should offer to take up the residuary unsubscribed shares of the bank, it is not proposed that Government should assume the role of a permanent holder of a considerable block of shares. The idea is more to reassure, right from the start, that the Bank will not find any difficulty in obtaining the full value of the shares placed for sale. There are, of course, two ways, in which the achievement of the object can be assured; first as has already been suggested, by an undertaking on the part of the Government to purchase unsold shares with the ultimate object of releasing them in the market as and when conditions are found to be favourable; and secondly, by a Government guarantee of a minimum dividend on the initial paid-up capital of the bank. There are precedents for the adoption of both these devices by particular countries according to their needs and problems. Of the first method, the latest and the most interesting example is furnished by the Industrial Credit Company of Ireland set up in 1933. Of the first issue of its shares, £5,00,000 offered for public subscription in November, 1933, shares worth so much as £4,92,064 had to be taken up by the Minister of Finance of Ireland, the public subscription accounting for only £7,936. Regarding the second method, it is interesting to recall here that it was preferred by the U.P. Industrial Finance Committee of 1935 that proposed (in connection with the scheme of the U.P. Industrial Credit Bank Ltd. as recommended by it) that the local Government should guarantee a dividend on the initial paid-up capital of the Bank at the rate of 4 per cent per annum free of income-tax*.

Tentatively, the second method is preferred in this note, but there is no objection to the adoption of the first method.

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* The U. P. Committee (1935) further proposed that if the "bank passes a dividend of 6% per annum, free of income tax after making due provision for bad and doubtful debts. depreciation on securities and other assets and such other contingencies as are usually provided by bankers, for five consecutive years out of its own earnings, the Government guarantee in respect of dividends shall terminate." The Committee further recommended that "in no case should the Government guarantee continue more than 20 years."

In return for the responsibilities thus undertaken, the Government should naturally be given some control over the institution. This can be provided for by reserving a number of seats in the Board of Directors of the Bank for Government nominees, who besides acting as members of the Board would also serve the purpose of a liaison between Government and the Bank.*

Resources of the Bank-Share Capital

As regards the resources of the bank, it is necessary that its paid-up capital should be fixed at a fairly high figure. The question as to what the exact amount of such capital should be can be settled only after a careful assessment of the responsibilities which the bank is intended to undertake, having due regard to the prospects of the bank getting effective support from investors right from the inception of the scheme. Evidently, the amount should not be too low, considering the requirements of both the existing industries and those that may be started in the near future. On the other hand, in view of the proverbial shyness of capital for industrial investment it would not be advisable to pitch the figure too high. As a working basis for discussion, however, the figure of Rs. 25,00,000 may be provisionally suggested as the minimum paid-up capital against an initial authorised and issued capital of Rs. 50 lakhs divided into one lakh shares of Rs. 50/- each to be called up as follows: Rs. 5/- on application, Rs. 10/- on allotment and Rs. 10/- on first call per share to be made within three months of the issue; the balance being reserved for subsequent calls. (If on a closer examination, it appears necessary to have a higher or a lower figure for the paid-up capital, the observations contained in this note will equally apply).

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* The following recommendations of the U. P. Industrial Finance Committee (1935) may be referred to in this connection.

"69. We recommend that the Board of Directors of the proposed bank should consist of:

4 Directors elected by the shareholders and
3 Directors nominated by Government.

"70. The first Chairman of the Board and the other six Directors should all be initially appointed by Government. Of this, the three Government nominees will hold office for five years, unless any of them is replaced by Government during this period. On the expiry of five years, Government may renominate them or replace any of them as may be deemed proper. The remaining 4 Directors will retire at the first annual meeting, but will be eligible for re-election. Every year thereafter one of these Directors will retire by rotation but will be eligible for re-election."

It may, however, be pointed out that whatever the paid-up capital of the bank may be, provision will have to be made to supplement the same by the issue, if and when necessary, of debentures with the floating charge on the assets of the Bank. This will be necessary to maintain the capital structure of the bank on an elastic basis and also to ensure a fair return on the share capital.

Debentures.

The question as to what proportion the volume of the debentures issued by the bank should bear to its share capital is a matter for discussion as no standard proportion in this connection is maintained by the various mortgage banks now working in different countries of the world. In fact, the experiences of different countries are found to be markedly at variance in this matter. As a rule, the proportion is found to be much higher in the case of agricultural mortgage banks than in the case of industrial credit institutions, but even the latter do not appear to follow any generally accepted principle beyond that some limit should be imposed on the permissible amount of debenture issues in the interest of the bond holder. This limitation, however, is found, in actual practice, to be imposed either by laying down a specific ratio as between the amount of debenture issues and the share capital and reserves, or by laying down a specific maximum amount up to which debentures may be issued by the bank. The more widely prevalent practice, however, is to fix a ratio between oustanding bonds and share capital and reserve of the bank and this is found to vary from 10 times in the case of the Industrial Mortgage Bank of Finland Ltd. to about 3 times in the case of the leading Investment Trusts in Great Britain. It may be recalled in this connection that this matter was considered by the Indian Central Banking Enquiry Committee who recommended the adoption of a proportion of 1:2 as between the share capital and permissible maximum amount of the debenture issues of the Provincial Industrial Corporations, and that this proportion was considered by some of the members of the Committee to be rather unduly restrictive. Among such dissentient members, while Mr. Manu Subedar was definitely against the imposition of any hard and fast proportion, Mr. N. R. Sarkar urged that the permissible ratio should be at least five times the share capital of the bank.

The question as to what proportion would best suit the proposed industrial bank of this province will have to be

considered in the light of the possible attitude of the investing public and also the bearing of the debenture issue on the financial stability of the Bank. Incidentally, it will also have to be considered in this connection whether the issues of debentures would require to be supported by Government, and if so, how.

It has already been made clear that the capital structure of the bank should be so designed as to enable it to perform the main functions of providing long term finance to industries against 'bloc' and also for meeting their requirements for intermediate finance for what has previously been described as 'permanent' working capital. One possible way of augmenting the capital resources of the bank is to allow it the privilege of accepting deposits from the public, and it may be recalled in this connection that the Central Banking Enquiry Committee recommended that the Provincial Credit Corporations proposed by it might accept fixed deposits from the public having currency of not less than 2 to 3 years. Although the Banking Committee imposed a condition as to the nature of acceptable deposits, their recommendation in this regard is not supported by any practice universally followed, and so the matter would appear to call for a closer investigation.

Acceptance of deposit and supply of short term advances.

The question whether the proposed bank should accept deposits from the public on current account would depend on whether it should cater to the requirements of industries for 'temporary' working capital.

There is no doubt that if the industrial bank takes up this work it would come into competition with the ordinary commercial banks and it is quite possible that the latter would not like this encroachment on their sphere of business. It may, on the other hand, be pointed out that if the bank has to properly perform its main business of rendering financial assistance to industries, it would be an advantage for it to carry the current accounts of its industrial clients; to the latter also such current accounts would be a help as enabling them to seek short-term accommodation from the bank in the form of overdraft, cash credit, etc. with better chances of success. The issue in all its aspects will require a careful examination along with the question whether an industrial client should be allowed to continue his current account operations with the bank even after the repayment of its long term advances.

Functions of the Bank.

Apart from such matters as acceptance of deposits, issue of debentures and the like on which a decision will have to be taken in the light of the various issues involved, the functions of the bank will comprise the following:—

(1) To give long and short term loans to big and medium-sized industries within the province against sufficient security of fixed and floating assets; (the financing of the small and minor industries being left outside the scope of the Bank).

(2) To lend money on immovable property, bills of lading, documents of title, promissory notes of two or more parties, debentures, Government promissory notes, etc.

(3) To underwrite, subscribe to and invest in shares of Joint Stock Companies registered in Bengal and connected with industries considered to have fair commercial prospects.

(4) To encourage purchase of machinery, materials etc. on hire purchase system and to supply funds and give guarantees for that purpose.

Privileges for the Bank.

In the interest of the financial stability of the Bank it may be necessary for it to have recourse to some effective methods for exercising regular supervision over the business of its customers. This may be done on the line followed by German Banks, by obtaining representation on the directorate of the borrowing concern or, in the alternative, by the appointment of one or more officers of the bank who will be entrusted with the work of examining the conditions of the industrial clients at regular intervals, and will have power to call for and obtain information that may be required or, by a combination of both these methods.*

Safeguards against mismanagements.

It would be necessary to impose certain restrictions on the management of the bank lest it should come to grief by pursuing unsound policies or by abuse of the rights and

* German banks which carry the current account of their industrial customers exercise influence over the latter in the following ways:

(*a*) by their power to grant and withhold credit;

(*b*) by acquisition of large shareholdings or voting rights;

(*c*) by the direct influence of bank delegates on the Board of Directors of their industrial clients.

privileges enjoyed by it. With this object in view the following restrictions are tentatively suggested:

(1) that no more than 25 per cent of the share capital and reserves of the bank shall be applied to underwriting business;

(2) that no more than 10 per cent of its capital resources (including shares, reserves and debentures) shall be advanced to any particular borrower;

(3) that no more than 30 per cent of its total capital resources (including shares, reserves and debentures) shall be advanced to any particular class of industry.

(4) that no advances shall be made to any industrial concern against bloc unless certain percentage, say 50 per cent of the minimum bloc capital (according to the standard of an economic unit in the particular line of the industry), has been raised by the concern applying for the loan;*

(5) that the amount of advance to a particular industrial concern should be limited to a certain specified proportion of the appraised value of the property offered as security, the exact proportion varying according to the nature of the security;

(6) that while the tenure of mortgage loans advanced by the bank should not be too short, it should not also be too long, a maximum period being specified.

The question whether any special machinery should be set up, or any special conditions should be imposed, for proper valuation of the assets of the borrowing concerns should also be considered in this connection.

Estimate of Expenditure:

To envisage the prospects of an industrial bank of the nature suggested above and also for an appraisal of its financial implications, it would be necessary to have some idea of its expenditure and also of the amount of investments that will enable it to be run as a profitable concern. Below is given a rough estimate of the recurring expenditure of the bank which would have to be provided for, right from its inception.

*The question as to what should be the standard of the minimum economic unit in a particular line of industry has to be determined with reference to the nature of the industry and other relevant factors.

Estimate of Expenditure for the proposed Industrial Bank.

	(per mensem)		(Per annum)
	Rs.		
Manager	1,000		
Accountant	300		
Asst. Manager	500		
4 Ledger Keepers at Rs. 60 ..	240		
Cashier	150		
Asst. Cashier	75		
2 Typists at Rs. 40	80		
2 Clerks at Rs. 40	80		
4 Peons at Rs. 16	64		
4 Darwans at Rs. 18	72		
Total ..	2,561	× 12	30,732
		say	30,750
Rent	400		
Electric, Telephone etc.	75		
Printing, Stationery & Stamps ..	100		
Contingencies	100		
Total ..	675	× 12	8,100
Emoluments of a special officer for supervision of concerns financed by the Bank	250		
Do. Assistant	100		
Total ..	350	× 12	4,200
Auditor's Fees			1,000
Directors' Fees			5,000
Grand Total ..			49,050
say ..			50,000

Initial Expenditure on Capital Account:

Furniture, Strong Room, Safe, Type-writers,
Accounting Machines, etc. Rs. 10,000/-

Assuming that the expenses on account of 'salaries and wages' would increase by about 10% (taking into account the liability of the Bank for provident fund contributions), the total establishment charges of the Bank during the first three years will amount as follows:—

	Rs.
First year	50,000/-
Second year	53,000/-
Third year	57,000/-

In calculating the total liability of the bank in respect of its annual cost, account will have, however, to be taken of an additional amount of Rs. 1 lakh on the assumption that a guaranteed dividend of 4 per cent. will have to be paid on the

initial capital of Rs. 25 lakhs; and the liability, it may be pointed out, would accrue right from the year of the establishment of the Bank. On a very conservative estimate it would be wise to assume that the industrial investments of the bank will not immediately yield a return that would suffice to meet this liability, as such investments will only grow by degrees from year to year. Evidently, the amount by which earnings of the bank will, in the initial period, fall short of its liability will measure the extent of financial assistance that would be required from Government. It may, however, be pointed out in this connection that the proportion of the share capital of the Bank that would be left over in its hands in excess of its actual industrial investments during the initial period would not remain altogether idle; for it would be available for investments in gilt-edged securities, the return in this case being, of course, much lower than in the case of industrial investment. In respect of advances to industries, even if the lending rate be fixed at 6 per cent. (which is very low compared with the rate of interest now charged by Banks or private individuals for advances against 'bloc') the actual over-all income of the Bank, taking due account of the earnings from collection charges for bills, cheques, drafts, etc. would come to about 7 per cent., vis-a-vis a minimum return of 3½ per cent. on investments in gilt-edged securities. According to these rates of yield on the investments of the bank and assuming an increase of industrial investment by ten lakhs in the second year against a minimum of 10 lakhs in the first, the total gross earnings of the bank would be estimated as follows:—

	Industrial Investment	Income at 7%	Investment in gilt-edge	Income at 3½%	Total income
	Rs.	Rs.	Rs.	Rs.	Rs.
1st year	10 lakhs	70,000	15 lakhs	52,500	1,22,500
2nd year	20 lakhs	1,40,000	5 lakhs	17,500	1,57,500
3rd year	25 lakhs	1,75,000	....	....	1,75,000

The above estimate has been prepared on a conservative basis. The actual total income from year to year is likely to be substantially higher on account of current account deposits, which will be available for investment in gilt-edge, or in short term advances to industrial clients.

	Liability for guaranteed dividend at 4% in Rs.	Liability for establishment charges in Rs.	Total liability for expenses Rs.	Gross income Rs.	Net position. Rs.
1st year	1,00,000	50,000	15,00,000	1,22,500	Deficit 27,500
2nd year	1,00,000	53,500	1,53,500	1,57,500	Surplus 4,000
3rd year	1,00,000	57,000	1,57,000	1,75,000	Surplus 18,000

It will be noted that only for the first year of its working is the bank likely to face a deficit of Rs. 27,500 even after making allowances for a dividend of 4% which means that the Government guarantee for the minimum dividend would involve a risk only for this amount for the first year. To be on the safe side a small deficit may be presumed even for the second year on the assumption that the estimated increase in the investment of the bank during this year will not materialise to the fullest extent. In any case it may be reasonably contended that Government will be relieved of any financial burden in respect of the guaranteed dividend on share capital definitely from the third year, although their liability on this score may technically continue.

It should be, however, pointed out that the estimates of income and expenditure as detailed above are only provisional, and that if found necessary these will have to be revised. It may for instance be suggested that the scale of salaries and the other items of expenditure have been fixed at unduly low levels. The figures have been given only as a basis for further discussion and may be increased to suit the requirements of different provinces. The only result of this revision of the schedule of expenditure would be that the bank would have to carry deficits for a number of years, instead of being self-sufficient in third year.

On the other hand, it would be found that no account has been taken, in preparing these estimates, of the debentures which the bank will issue, nor of a possible increase in the amount of the share capital. It needs hardly be stressed that the size of the bank would depend on the volume of business that it would be asked to undertake, the amount of the share capital and debentures being proportioned to the requirement. At the same time, the income of the bank from industrial investments would also be higher according to the increase in the volume of business, and, to that extent, would go towards the balancing of the increased expenditure.

SUMMARY OF DEVELOPMENT

The entire field of Industrial Finance, with all its problems and complications, has been surveyed in the Introduction, which has frequently referred also to developments that have taken place since the Sub-Committee presented its Interim Report. These developments may now be summarised in brief to bring the subject as near up-to-date as possible.

Owing to the spurt given by the War and its intensive demand for urgently required war material, the local Industrial Organisation in India had to be speeded up very rapidly in the interval between 1939-40 and 1945-46. A considerable rise in prices followed not only the growing demand, but also the growing inflation in currency which provided its own additional stimulus to the expansion or new developments in industry. Most of the new establishments and expansion in existing industries took the shape of Joint Stock Enterprise; and the finance needed for these was found out of the new wealth seemingly produced by the war-time boom.

The rising curve of prices, it may also be noted, created its own problems. Government in its desire to keep prices as much as possible under control, devised a progressively complicated method of price fixation, regulation and control, which, though all at once it could not prevent a rise, necessitated measures calculated to take up all the spare cash of the community for investment. It was thought that this reduction in the purchasing power in the hands of the public would diminish consumption and keep down prices.

Much of the investment thus practically forced was in War Loans and a variety of Saving Certificates, etc., which were introduced as part of the War Borrowing Programme. The Banks were instructed to keep their advances also under restriction so as to prevent further inflation becoming necessary. But none of these measures could prevent the spurt in prices rising and ever more rising. The Banks could not altogether refuse, even if they wanted to, to recognise the growing demand for expanding finance. Practices, therefore, began to appear in the Banking System of the country, which were thought to be unsafe or unwise, primarily from the point of view of safety of the depositors and the general credit system of the country. The demands

of the national economy as a whole were not taken into account as fully and integrated as might be desired.

Reform of the Banking Law

The most important war-time development that may be taken notice of in this Summary is the attempt to consolidate the Banking Law with a view to secure as much safety as possible for the depositor. Banking was conceived almost country's development all round. The corresponding Indian facilities to international as well as indigenous commerce, but not as an aid to industrial or economic development. Even as regards credit facilities for commerce, local trade was mainly financed by the old type native banker or Shroff, whereas the more modern organised institutions specialising in foreign trade finance and called Exchange Banks, had a monopoly of that most profitable and least risky business. They were accordingly indifferent to the financial needs of industry or other sectors of the national economy concerned with production. Accordingly those Banking Corporations which kept to the beaten track of commercial financing only acquired power out of all proportion to the service they rendered in the cause of the exclusively as a commercial enterprise, granting credit Institutions became somewhat slack in following the routine evolved by generations of practice in Britain and so their methods and activities in carrying on their normal business often left loopholes for criticism.

Considerable powers of control, supervision, inspection and investigation were proposed to be given to the Reserve Bank of India, as the country's Central Credit Currency and Banking Organisation. At the same time that Bank was authorised to come to the rescue of ordinary Banks in danger through no fault of their own. Regulations were proposed in regard to the number, location, and status of branches, the volume of deposits, the investment of these deposits, the maintenance of cash reserves, all intended to safeguard the depositor as well as the share-holder of the Bank. A distinction was at the same time sought to be introduced between Bank with Head Offices in British India and those in Indian States; between Banks working inter-provincially and those confined to a single province; between Banks engaged only in India and those desirous of engaging in foreign trade financing.

These far-reaching proposals could not be enacted into law by the then Government which transferred its power and responsibility. The consolidated Banking Bill was ac-

cordingly passed on as a heritage to the Interim Government when the Indian people's representatives assumed tries. The rapidity with which new capital was formed, and find time for enacting such a comprehensive and radical measure in their year of office. The changes contemplated in that Bill have, even at the time of writing three years after the close of the war, not yet been placed on the Statute Book. No re-organisation in banking, very much overdue as it is, has yet been effected. The measure still remains in the stage of a proposal and will require to be radically altered, the whole angle of its approach to be changed, the very conception of the role of Banking in the planned economy of a country to be fundamentally revised, before it becomes law. It is, therefore, premature to take any further notice of it.

Control of Capital Issues

Another cognate development was in regard to the Control of Capital Issues for financing new or expanding industries. The rapidity with which new capital was formed, and the eagerness with which it was sought to be absorbed by the existence of the artificial and temporary stimulus of the War, made the Authorities take alarm, particularly as these competitors threatened to frustrate their war-borrowing programme. A concerted attempt was made from 1943 to regulate new capital issues, not only to safeguard the Loan Programme of Government, but also to prevent undue demands on the Foreign Exchanges in the shape of license for import of capital goods for equipping new or expanding industry.

The following table, taken from the Report of the Reserve Bank of India on Currency and Finance for the period 1-10-45 to 31/3/47, gives the number of applications for new capital to be issued and the amount actually consented to.

Immediate and Long-range schemes.

(Figures in crores of Rs.)

		Applications.		Consented to	
		No. of Cos.	Amt. asked for	No. of Cos.	Amt. wholly or partially allowed.
British India	Initial	870	322.13	694	266.32
	Further ..	598	115.07	386	79.70
Outside British India	Initial ..	91	32.31	72	23.73
	Further ..	55	14.40	33	10.21
(Grand Total Industrial & Non-Industrial) ..		1614	483.91	1185	379.96

It was hoped that the policy would not work so as to hamstring new industrial development and the economic growth of the country. The restricted facility for Dollar Exchange has necessitated continuance of the policy even after the war came to an end. Though Rs. 869.15 crores of new capital was applied for, under the Capital Issues Control Scheme the capital allowed to be issued was Rs. 640.52 crores. New Companies, on the other hand, formed between 1939 and 1944 numbered 5653 with a total authorised capital of Rs. 342.02 crores; subscribed capital of Rs. 111.12 crores; and paid up capital of Rs. 78.81 crores.

Whether or not the policy of restricting or controlling fresh Capital Issues has succeeded would depend upon the angle from which the problem is approached. In so far as this restriction was intended to safeguard the War borrowings of Government, it may be said to have achieved its objective within limits. Naturally the 3% rate of war loans with by no means too assured a prospect of capital re-payment after ten or twenty years, or even regular payment of interest without additional deductions by way of taxation, could not attract the industrialist who was able to make 100% or more quite easily during the War boom with or without the help of the Black Market. Cheap money policy was an imitation of the British system, which could not bring all its intended benefit to the national economy in this country, and yet produced a number of evils which have called for the severe warnings from the highest authorities of the Reserve Bank in the years after the War. In so far as, moreover, the policy was intended to provide a check upon Foreign Exchange facilities, particularly in regard to hard currencies, the restriction may have succeeded in part, but at a long-term cost to the country impossible to calculate. Notwithstanding the comparatively large amount of capital authorised under the Capital Issues and Control Scheme, only a fraction has been paid up; and against that fraction also, capital equipment imported from the U.S.A. or Switzerland is not yet all that it might have been.

A carping critic may also suggest that the real aim of the policy was to keep industrial expansion, progressing at a menacing rate in India, within a limit notwithstanding the stimulus afforded by the war. If that objective was the ultimate inspiration, the system of Capital Issues Control has succeeded. It is clear that industrial development might have been much wider and more lasting had India been really a free country, and full freedom of new capital in-

vestment been maintained. This is, however, rather hypothetical; and need not be relied upon. The fact is that because of the universal dislocation of local economies, almost everywhere in the world, the trade in capital goods, has perforce had to be restricted for the producing countries' own difficulties. Even if, therefore, there had been full freedom, it is more than doubtful whether the necessary equipment could have been exported from countries where alone efficient service of this kind can be expected.

Industrial Finance Corporation

Next in the series of developments here being reviewed may be mentioned the formation of new industrial concerns. In the several Volumes in the Series dealing with industrial expansion, whether Manufacturing Industries, Chemical Industries, Power & Fuel, Multi-purpose River Training Projects, Heavy Engineering Industries or those relating to Transport or Communications Service or Scientific Instruments, it is pointed out that there has been a growth. But that growth has not yet filled the **lacunae** that Indian Industry presents from the standpoint of national self-sufficiency. Whether the ultimate aim in the programme of planned development is to use up all the available raw materials, and so provide the fullest possible employment for labour available in the country; or to meet the demand of the local market at least from our own production in regard to the essential requirements of the people, the scope for industrial expansion in India is still very considerable. New concerns have been formed and existing industries extended only in a very small fraction of the field open for such enterprise. The National Planning Authority, when set up, will have among its most urgent tasks the co-ordination and adjustment between the amount of new capital forming in the country, and the scope for its profitable absorption in the country's productive organisation.

The institution, therefore, of special organisation to provide the necessary finance for the expanding or new industries of the country is the most considerable development in recent times that must now be noted. In the last sessions of the Constituent Assembly (Legislative) of India, a Bill was passed to establish an **Industrial Finance Corporation** for the express purpose of financing new or expanding industry. The Corporation is to be a statutory semi-public authority, based upon the guarantee of the Central Government of the country. The guarantee works both as

regards its own capital, and as regards the minimum return on that capital.

The total capital of the Corporation is fixed at Rs. 10 crores to be subscribed as follows:—

20% by the Central Government,
20% by the Reserve Bank of India,
25% by Scheduled Banks,
25% by Insurance Companies, Investment Trusts and other such financial institutions and
10% by Co-operative Credit Societies.

If any portion of the capital to be taken up by each of the preceding categories is not taken up by them or is not allotted, it must be taken up by the Central Government or the Reserve Bank in such proportions as may be agreed upon between them. These authorities may also dispose of the shares so taken up by them.

The shares of the Corporation are not transferable except to the original subscribers viz: the Central Government or the Reserve Bank, Scheduled Banks, Insurance Companies, Investment Trusts, or any other financial Institutions or Co-operative Societies in accordance with the regulations laid down.

Shares of the Corporation are guaranteed by the Central Government as to the repayment of the principal and payment of the annual Dividend at such minimum rate as may be fixed by the Central Government at the time of their issue. Similar guarantee is also provided for Bonds and Debentures of the Corporation issued on the securities of the concerns which it helps to finance in regard both to principal and interest at such rates as the Central Government may fix on the recommendation of the Board.

The Corporation is to be managed under the direction of a Board of Directors, consisting of:—

3 Directors nominated by the Central Government;
2 by the Central Board of the Reserve Bank;
2 elected by the Scheduled Banks who are share-holders of the Corporation;
2 by other share-holders of the Corporation;
2 by Co-operative Banks who are share-holders of the Corporation;
1 Managing Director, a whole-time officer of the Corporation, appointed by the Central Government on the recommendation of the Reserve Bank in the first instance for a term of four years, is Chairman of the

Board. He performs such duties as the Board may entrust or delegate to him from time to time. His emoluments are fixed by the Board subject to the approval of Government.

The Directors are appointed for a period of four years, two retiring every two years after the first election, the first retirement being determined by lot. A Director is eligible for the same post for not more than two consecutive terms after rotation has begun.

No one can be appointed a Director of the Corporation:—

(a) who is a salaried officer of the Corporation other than the Managing Director, or
(b) has been at any time adjudicated insolvent; or
(c) is a certified lunatic, or
(d) is or has been convicted of any offence involving moral turpitude.

Any Director who is absent from three consecutive meetings of the Board without leave of absence, will cease to hold office.

The Chairman holds office for two years or until his successor is appointed and is re-eligible for nomination.

An Executive Committee, consisting of the Managing Director as Chairman, and two Directors, elected by the nominated Directors, and two others by the elected Directors, is appointed to conduct the day to day work of the Board.

The general supervision and direction of the affairs of the Corporation are vested in the Board of Directors assisted by the Executive Committee and a Managing Director. The Board must follow the instructions, if any, issued by the Central Government from time to time, and must generally act in accordance with business principles in conducting the activities of the Corporation.

There is in addition an Advisory Committee appointed by the Corporation for securing efficient discharge of the functions of the Corporation.

The Corporation is entitled to have its own offices and agencies, and regulate its own meetings and procedure. It is authorised to open deposit accounts with the Reserve Bank of India, and is required to invest its funds in the securities of the Central or Provincial Governments.

To increase its working capital, it may issue and sell Bonds and Debentures carrying interest provided that the

total amount of such bonds and debentures issued and outstanding, and of the contingent liabilities in the form of guarantees given by the Corporation, shall not at any time exceed five times the amount of its paid up share capital and the reserve fund.

The Corporation may also accept fixed deposits of not less than five years from the date of making the deposit, and make such other terms with the depositor as it thinks necessary.

The business authorised to be transacted includes:—

(a) guaranteeing, on such terms and conditions as may be agreed upon, loans raised by industrial concerns —which
 (i) are repayable within a period not exceeding twenty-five years, and
 (ii) are floated in the public market;

(b) underwriting the issue of stocks, shares, bonds or debentures by industrial concerns;

(c) receiving in consideration of the services mentioned above such commission as may be agreed upon;

(d) retaining as part of its assets any stock, shares, bonds or debentures which it may have to take up in fulfilment of its underwriting agreement provided that such stock etc. should be disposed of as early as practicable and in any case within 7 years from the date of such acquisition;

(e) granting loans or advances to, or subscribing to debentures of industrial concerns, repayable within a period of not more than twenty-five years;

(f) all such other matters and things as may be incidental to or consequential upon the exercise of its powers and duties already defined;

(g) the Corporation may also make loans or advances to industrial concerns requiring to be financed in foreign currency. It may for this purpose borrow, with the previous consent of the Central Government, such currency through the International Bank for Reconstruction and Development. It may for this purpose pledge, mortgage, or assign to that Bank or other foreign lender all or any part of the security taken by the Corporation from the concern assisted. Such loans or advances in foreign currency must be repaid in the currency in which they were made, or in equivalent Indian currency at the rate of exchange prevailing at the time of re-payment.

The Corporation is further given certain rights of proceeding against their defaulting debtors and also to call for re-payment before the due date. Special provisions have also been made to facilitate the Corporation claims being realised. A limit is placed on the distribution of profits as dividends. No dividend can be in excess of the rate guaranteed by Government so long as the reserve fund is less than the share capital of the Corporation, and so long as expenditure by Government in making good its guarantee remains unpaid. An absolute limit of 5% is also fixed. The remaining surplus after the payment of such dividend, and after the reserve fund of the Corporation has become equal to the share capital, must be made over to Government. There is a provision also for the Central Government to take over the Corporation at any time after 5 years subject to a premium of 1% on capital for every year of working, provided that such premium does not exceed in any case 5%.

No accommodation shall be given under these clauses unless it is secured by a sufficient pledge, mortgage, or assignmet of Government or other securities, stocks, shares or secured debentures, bullion, movable or immovable property or other tangible assets. Further such accommodation shall not be granted to any single concern for an amount equal to more than ten per cent of the paid up share capital. The Corporation may also impose such other conditions with the concern accommodated as it thinks necessary including the appointment of a Director on the Board of Directors of the concern assisted.

The following business is prohibited:—

(a) acceptance of deposits except as authorised by this Act;

(b) subscription directly to shares or stock of any company having limited liability.

This does not bar the Corporation from doing underwriting business for the shares or debentures of any concern as mentioned above.

Control of the Stock Exchange

In this connection mention may also be made of the attempts recently made by Government to check speculation on the organised Stock Exchanges of the country. The abuses by the Stock Exchange Speculator are too well known to be recapitulated in this Summary. Attempts have been made by the Local as well as the Central Governments, to

regulate the working of these Exchanges for the last 25 years, so as to keep speculation within strict bounds, if not prevent it altogether, and to make the Exchanges function for the real end for which they are formed, namely to assist in industrial finance proper by mobilising the savings from the general investor of the country. Three principal practices have attracted special attention as productive of the worst abuses, viz:—

(1) creation of corners in particular scrips;
(2) keeping blank transfers;
(3) prolonged period for effecting Budley transactions.

None of the remedial measures seem to have proved effective so far.

The Stock Exchanges have hitherto functioned as autonomous organisations, which, however, have often used their autonomy to the prejudice of the general economy of the country. By their own acts, they have necessitated intervention of the Local or Central Governments, that, in the years following the War have taken more and more detailed and specific forms. The example of the United States under the New Deal in the same field is being utilised for restricting speculative operations, and diverting genuinely new formed capital or savings of the people into truly productive fields. A special enquiry had been ordered by the Government of India in this behalf in 1946-47 but the Report has not yet been made public. It is, therefore, impossible to note and comment upon it in this Summary. In the attempts made hitherto for the control and regulation of the Stock Exchanges, attention has, generally speaking, been focussed upon remedying evils such as excessive speculation rather than developing a healthy agency for improving the credit of the country, and its investment capacity. For a sound comprehensive National Plan this aspect is even more important and indispensable. If the Stock Exchanges and Share Bazaars are to contribute their share in the economic development of the country, they must cease to be purely parasitical organisations, striving only to seek unearned profit for their members or clients and ignoring altogether the country's need for encouraging real saving and mobilising that saving for effective productive investment.

Relief and Rehabilitation Corporation

Side by side with the Corporation is the establishment by Statute of another body, namely the Corporation for the Relief and Rehabilitation of Refugees essentially for the

same purpose. On a miniature scale this body is intended to provide homes and productive employment for the millions who have been transplanted from their homes by the Partition of the country. The establishment of new or suitable industries amongst them will necessitate a line of policy that might well become an example on a large scale for the whole country.

In either of these two cases, it is important to note that these are **ad hoc** measures, not mutually co-ordinated and generally integrated with the entire National Plan. Naturally, therefore, they lack in that cohesiveness and co-ordination which are the essential characteristics of a planned programme in this field. Several parts or items of a comprehensive National Plan have, in recent months, been dealt with separately, as **ad hoc** measures. It is possible to correlate and integrate them into a mutually consistent plan of development along with other items, aspects or sectors of such a Plan. Today, however, they remain unco-ordinated **inter se.** It is, therefore, impossible to say whether these developments would meet the real long-range requirements from the point of view of finance as well as other productive branches of the National Economy.

The ways and means of adequate and appropriate Industrial Finance, suggested in the Introduction, required to be adopted for satisfactory all-round financing of the entire National Plan, still await to be attended to. No definite policy to attract Capital, if necessary, from abroad, as an integral part of the National Plan, has also been laid down. The utility of such recent developments as the creation of the International Monetary Fund and International Bank for Reconstruction and Development, from the point of view of economic advance of this country, remains to be tested, even though this country has from the very start become a member of these organisations. Finally the mobilisation of capital locally available, whether in the form of commercial reserves, Insurance Funds, personal savings, or bank deposits, also remains to be achieved.

The new developments, therefore, noticed herein though each considerable by itself, make the need for inter-relation, co-ordination and integration more than ever evident, not only in the financial sector of the Plan, but with the whole Plan. Each item and each sector must become essentially co-related to all others. The entire National Plan cannot be successfully put into operation unless all its items, sectors

and stages develop simultaneously and work to a given end, viz: achievement of National Self-sufficiency and improvement in the standard of living that every citizen should be assured in a community claiming to be civilised and progressive.

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